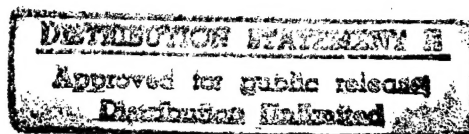


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GENERAL

Justification for Claim to Paracel, Spratly Islands

92CM0359A Beijing BEIJING DAXUE XUEBAO
[JOURNAL OF BEIJING UNIVERSITY] in Chinese
No 3, 20 May 92 pp 30-40

[Article by Zhao Lihai (6392 3810 3189): "China's Inalienable Sovereignty Over the South China Sea Islands Viewed in Terms of International Law"]

[Text] The South China Sea is a semi-isolated ocean region.¹ To the north, it borders the Chinese mainland; to the east it abuts the Philippine archipelago; and to the west it is bounded by the Malaysian Peninsula. It extends approximately 3,400 kilometers (1,800 nautical miles) north to south and approximately 1,200 kilometers (650 nautical miles) east to west, and it covers an area of 3.5 million square kilometers.

The islands of the South China Sea include the Spratly Islands [Nansha Qundao], the Paracel Islands [Xisha Qundao], the Pratas Islands [Dongsha Qundao], and Macclesfield Bank [Zhongsha Qundao]. The Spratly Islands, also known as Tuansha Archipelago, are located at between 4 and 12 degrees north latitude and between 108 and 111 east longitude, and include more than 230 islands, reefs, sand bars, and shoals of which 13 are fairly large. The Taiwan authorities have consistently dispatched troops to occupy the largest—Taiping Island.

The Paracel Islands are located at 112 degrees east longitude and between 16 and 17 degrees north latitude, 150 nautical miles southeast of China's Hainan Province. The archipelago consists of approximately 20 small islands and sand bars, as well as numerous shoals and hidden reefs.²

The Pratas Islands are located in an area bounded by China's Guangdong, Hainan, and Taiwan provinces, and by Luzon Island in the Philippines. All the islands are covered with coral. The Pratas Islands are located in a key area of considerable strategic importance. They are currently occupied by a Taiwan garrison administered from Kaohsiung. A power plant, a hospital, a post office, a wharf, an airfield, and a meteorological radar and a fishermen's service station have been built on the islands. The ocean in the vicinity of the Pratas Islands is rich in aquatic products, and fishing boats from China regularly travel there to fish.

Zhongsha Archipelago, or Macclesfield Bank, is actually not an archipelago, but a vast ocean area of sea-covered atolls located southeast of the Pratas Islands on which the water is 4 to 4.5 fathoms deep. Despite the low elevation of the land, all around the banks rich oil, gas, and fishing resources may be found, the economic value of which cannot be disregarded.³

It is common knowledge that the islands of the South China Sea are located in China's southern coastal area and territorial sea. This southern sea is also known as the

"South China Sea." Although China has never called its southern sea by this name, this has become the common name by which other countries, particularly western countries, refer to the southern sea. The Chinese people discovered the islands of the South China Sea nearly 2,000 years ago. The Paracel Islands have also appeared on Chinese maps for the past several hundred years. During that period, the countries of southeast Asia were still under the rule of the western colonialists. The islands of the South China Sea have been Chinese territory since ancient times. Not only do large quantities of references—both ancient and modern, Chinese and foreign—attest to this, but the countries of the world also recognize it.

However, some people who want to cause trouble for no reason have initiated provocations against the Chinese people, flagrantly encroaching upon China's sovereignty over the islands of the South China Sea.

The main conflict over the islands of the South China Sea at the present time concerns the Spratly Islands, where the focus of contention is territorial sovereignty. This article seeks through analysis of international law to defend China's sacred sovereignty over the islands of the South China Sea.

I.

Can modern international law be applied to behavior that occurred during a historical period between several hundred and several thousand years ago such as discovery and first occupation? If not, what law should be used to determine or judge whether a nation has certain rights or ownership? In examining China's inherent sovereignty over the islands of the South China Sea, clarification of these issues through some exploration of intertemporal law is extremely necessary.

An official letter that American Secretary of State Upshur wrote to a person named Everett on 9 October 1843 said that "a people's right to land discovered in the 16th century is determined on the basis of international law as understood at that time and not on the basis of improved upon or more enlightened views 300 years later."⁴

In the Island of Palmas case of 1928, the United States claimed sovereignty over the islands on the basis of an 1898 treaty between the United States and Spain. Reportedly, Spain had discovered the islands during the early 16th century. However, at the time of suit, simple discovery without occupation was not regarded as conferring sovereignty.

In describing the principle of intertemporal law, arbitrator Max Huber wrote: Both the United States and the Netherlands both recognize that profound changes occurred in international law between the end of the Middle Ages and the end of the 19th century regarding discovery rights and acquisition of places found to have no trace of human habitation. Both parties also agree that a legal fact must be judged in accordance with the

laws at the same time, and not according to disputes that arise concerning this fact or the laws that are in effect at the time of resolution. Thus, the validity of Spain's "discovery" was based on international law provisions of the first half of the 16th century, i.e., when either Portuguese or Spaniards first discovered the Sea of Celebes. Huber also noted that "on the issue of the applicability to specific cases of different legal systems handed down from different periods, a distinction must be made between the creation of rights and the existence of rights. Actions that create a right must be limited by the laws in effect at the time the right occurred. In other words, the continued expression of a right that exists must meet certain conditions that the evolution of the law requires."⁵ According to 19th century international law, "in order to make a claim to sovereignty over territory, first occupation must be effective." "Simple discovery without any subsequent action is currently insufficient to validate sovereignty over the Islands of Palmas." Clearly, the existence of rights must be determined on the basis of the law at the critical date when the right existed. The law not being *ex post facto* is the quintessence of intertemporal law.⁶

What is meant by intertemporal law? A resolution passed at the annual meeting of the International Law Society at Wiesbaden in 1975 provided an authoritative interpretation of this. The resolution explicitly provided that "(1) Unless separately indicated, the current sphere of applicability of any provision of international law requires that any fact, act, or circumstance must be decided on the general legal principle of making a judgment in accordance with legal provisions in force at the same time." "(2) when applying this principle, (a) any provisions pertaining to a fact must be applied to the facts that occurred during the period of validity of the provision; (b) any provision pertaining to an actual circumstance must be applied to the circumstances obtaining during the period of validity of the provision even though these circumstances occurred earlier; and (c) any legal or illegal provision pertaining to a lawful act, or any provisions pertaining to valid conditions must be applied to the actions that occurred during the period of validity of the provisions."⁷

Obviously, intertemporal law has become a generally recognized international rule, and it is also a sharp weapon that may be used to interpret China's inherent right to the South China Sea islands. The renowned British international law expert and International Court justice Jennings said as follows: "The validity of an act should be determined by the law at the time of the act and not by the law at the time that a claim is made. This principle is basic and important."⁸ Kittichaisaree of the Thailand Ministry of Foreign Affairs also says coincidentally in his forthcoming book, *Maritime Law and Maritime Boundary Demarcation in Southeast Asia*: "The validity of action that invests authority..., such as discovery and first occupation, is determined according to the law at the time when authority was invested and not by the law at the time a claim is made."⁹ South

Korean maritime law expert Pak Chung Hwa [2883 0112 0735] said in explaining the Chinese discovery of the Paracel and the Spratly Islands that he was profoundly doubtful about "modern international law being completely applicable to actions that occurred before the modern historical period." He said that international law "required that the discovery of new territory exert uninterrupted control over this land in order to become the owner of the land." He said categorically about the importance of discovering and using these two archipelagoes that "it must be based on specific circumstances at the time when these events occurred and not be explained in terms of the modern laws of each country."¹⁰

II.

Some people say that "in the controversial course of all countries of the world dealing with *res nullius* sovereignty, an international law principle for determining territorial sovereignty has been fashioned, i.e., an effective principle." "This principle is one component of today's international common law."

To be sure, the "effective principle" (effective occupation) is an important principle of international law regarding territorial acquisition. China has consistently followed this principle regarding the islands in the South China Sea. The question is whether this principle of international law can be applied to facts or behavior that took place in the 15th to the 17th century or even several thousand years ago. The answer is clearly negative. The world renowned *Oppenheim International Laws* says in an extremely firm tone that "today, possession and administration are two effective conditions of occupation; however, formerly, these two conditions were not recognized as occupation methods necessary for acquiring territory."¹¹ According to intertemporal law, the law is not retroactive. The validity of an action such as discovery and first occupation can only be decided in accordance with the law at that time and not in accordance with the law at the time controversy occurs or at the time of solution.

In discussing methods of territorial acquisition, Oppenheim made a sharp distinction between the international law of the 15th and 16th centuries and that of the 18th and 19th centuries. It was only after the 18th century that international law required "effective occupation," and during the great discovery era, symbolic acts could satisfy this requirement. He said that "during the era of great discoveries, no country advocated that the discovery of land about which no one was previously aware was tantamount to the country that the discoverer served while engaged in exploration and had already employed the occupation method to obtain that territory; nevertheless, occupation was frequently a symbolic act." "It was only after that, that actually taking possession was deemed necessary. It was not until the 18th century that international lawyers required effective occupation, and it was not until the 19th century that the practice of all countries conformed to this rule."¹²

Likewise, in 1938, America's Simsarian also pointed out in *Obtaining Res Nullius Legal Sovereignty* that one can see from the diplomatic documents of various countries that "during the period prior to 1900, the standpoint adopted was obviously different from the attitude maintained during the last half of the 18th century and thereafter." "At a fairly early time, all countries recognized that discovery with symbolic occupation constituted res nullius sovereignty over North America." However, during the last half of the 18th and the early part of the 19th century, the United States, Great Britain, and Russia decided that "effective occupation" was the "standard for testing the limits of legal sovereignty proposed for the area in controversy" along the northwest seacoast.¹³

The further citing below of several authoritative treatises is necessary for the further elucidation of 15th and 16th century law regarding the acquisition of territory. In an article titled, *Discoveries, Annexations and Their Actual Validity in International Law*, Heydte did not mince words. He said, "Ever since the 15th Century, the official conduct and practical statements of officials of all countries have increasingly inclined toward recognizing that the symbolic annexation of newly discovered places serves as the right of possession."¹⁴

In a book titled *Territorial Claims Questions in International Law and International Relations*, Norman Hill of the United States said, "For numerous ordinary types of islands whose occupation would be difficult or impossible, some symbolic act of occupation was proposed. This has been the method followed since the discoveries of the early 15th and 16th centuries. In recent times, the United States and Great Britain most actively used this as a basis for making territorial claims in the Pacific Ocean area. Since simple discovery is recognized as a sufficient basis for res nullius, the use of various practices that might possibly be regarded as actual occupation or symbolic acts has spread."¹⁵

In his *Territorial Acquisition Problems in International Law*, British Oxford University Professor Jennings said: "Simple discovery without occupation conferred sovereignty in the past." Here, the past clearly means prior to the 16th century because he says, "Since the 16th century, there is no longer any controversy. Simple discovery, which ultimately connotes first occupation, is sufficient to provide sovereignty."¹⁶

Oxford University Professor O'Connell also pointed out that "During the great expansion period, discovery might have been suggested as a basis for authority; however, it was an effective basis only with regard to other claimants."¹⁷

Furthermore, a look at the practice of various countries shows that during the 15th and 16th centuries, the acquisition of territory through discovery or the founding of colonies abroad were common occurrences. Diplomatic documents of Spain, Great Britain, France, and Holland show that from the second half of the 15th

century until the end of the 19th century, these countries maintained that discovery together with symbolic occupation was sufficient basis for res nullius sovereignty over North America.¹⁸ Spain laid claim to the entire American coast north of Mexico Bay on grounds that Spain discovered Florida in 1489 and landed there in 1513.¹⁹ In an official letter to the United States in 1782, Portugal used discovery as the basis for its claim to Trinidad Island.²⁰ In the controversy between France and Great Britain over Canada and neighboring islands, France consistently advanced discovery with symbolic occupation to make a res nullius claim to sovereignty.²¹ On the issue of whether discovery confers sovereignty, this principle is even more explicitly approved.²² The United States maintains that sovereignty based on previous discovery is valid beyond all doubt.²³

Clearly, on territorial acquisition questions, on what period is the "effectiveness principle" of international law based? Or during what period was "discovery creates sovereignty" the law? Is the answer not all too clear?

III.

In trying to defend the invasion and occupation of China's numerous South China Sea islands and reefs, some people surprisingly term "first discovery rights, first occupation rights and symbolic occupation" to be an "outmoded and inappropriate concept" "that has been discarded," and that "occupation by private individuals does not lead to territorial rights for his nation." How can one maintain silence in the face of such absurd arguments? Clarifying concepts, and distinguishing between right and wrong in order to safeguard the sacred sovereignty of China's China Sea islands is entirely necessary.

In his monumental work *International Law* of 1758, Vattel first propounded discovery and symbolic actions. He said, "Everyone has an equal right to things that have not yet been occupied by anyone. These things belong to the first person to occupy them. Therefore, when a country discovers a land where no human trace can be found or that has no owner, it may legally occupy it; and once it fully signifies its intentions in this regard, no other country may expropriate the territory. Carrying a mandate from their sovereigns, those who sailed the seas began voyages of discovery. When they happened on islands or other inhabited lands, they occupied them in the name of their country. Such sovereignty was usually respected provided it was followed shortly thereafter by actual occupation."²⁴ The theory of "initial rights" of acquisition through symbolic acts and actual occupation within a suitable period of time was perfected, and it now forms the basis for this famous judgment.²⁵

The term "discovery" usually means "physical discovery or simple visual apprehension." Some say that "discovery" means "visual apprehension," with or without landing.²⁶

The object being discovered must be *res nullius*. *Res nullius* may apply to a land showing no human habitation, land that has never been occupied or belongs to no country, or land owned and previously occupied by a country that has since been abandoned.²⁷

Even though discovery does not constitute acquisition of territory through first occupation, its importance cannot be ignored. Discovery confers "initial rights" or "inchoate title" on the discovering country. Until such time as the discovering country "effectively occupies" within a reasonable period of time, these rights, to use a phrase of Huoer [transliteration] "act temporarily to inhibit another country from occupation."²⁸

On the nature of "initial rights," Heydte made an incisive exposition. He said, "Never has there been an instance in which simple discovery was regarded as a right that transcends subsequent occupation." "Discovery confers only *jus ad rem*. No one can provide convincing proof that at any time the discoverer was regarded as being able to establish minimum *jus in re*." In his view, "symbolic acts may be explained as a means of showing the world the acquisition of initial rights over the land discovered. For other countries, this makes the discovered land *terra prohibita*. However, it does not confer on the country erecting the sign either complete rights of control or jurisdiction over the land."²⁹

Symbolic acts are of all kinds and descriptions, each of them different from the other. Under certain circumstances, the landing party fires a salute, raises his national flag, and declares the land occupied in the name of his country. He may plant a cross or set up a memorial, or he may leave an inscription. For example, in the 15th century, the king of Portugal, Henry the Seafarer, implanted a cross or boundary marker in all the lands that his ships discovered to indicate that they were Portugal's domains. Both the Spaniards and the Portuguese used carefully prepared religious ceremonies in staking claims. Other European nations raised the flag, read a declaration, or nailed a sign to a tree to show their symbolic action.³⁰ Great Britain and the United States usually augmented their symbolic ceremonies with leases or the settling of private individuals.³¹ For the symbolic occupation of uninhabited islands, the raising of the country's flag sufficed.³² However, except in specific instances, discoverers do not explain the territorial limits of the symbolically claimed land.³³ [No reference provided among list of references].

If no other country expresses "prior claim," in many cases involving uninhabited or desolate places the courts are content with the slight exercise of rights. In the 1865 Aves Island case, the Queen of Spain used the fact that no one lived on or could live on the island and that it had been discovered and symbolically annexed by Spaniards to annex it.³⁴

In the 1924 Palmas Island case, the arbitrators noted that "actually sovereignty cannot be enforced at every place every hour and every minute on a piece of land.

Intermittence and interruption are bound to differ in places that are habitable and those where no human habitation is found."³⁵

In the 1933 Eastern Greenland arbitration case, the Permanent International Court stated that in numerous cases concerned with territorial sovereignty, "the court is satisfied with slight exercise of rights provided no other country can validate a prior claim. This is particularly true in circumstances where a sovereignty claim is made for sparsely inhabited or uninhabited areas." The Court also declared that "in view of actions in sparsely inhabited or uninhabited places from the 10th through the 16th century, the establishment of legal *res nullius* legal rights during that period requires testing against less rigorous standards than in the modern area and for more densely populated areas."³⁶

In addition, the decision rendered in the 1931 Clipperton Island arbitration case noted with regard to a place "not suitable for habitation, that if a piece of land is completely uninhabited, from the advent of the first occupying country there, it is under that country's absolute and incontestible control. From that time forward, ownership must be regarded as being completed; thus such ownership constitutes complete occupation."³⁷

It is extremely clear that the contention that a country's "earliest discovery rights, earliest occupation rights, and symbolic ownership principle" are "outmoded," or "abandoned," is completely without foundation. On the contrary, rules pertaining to discovery and first occupation remain important to this day, because it is previous discovery that frequently leads to current territorial controversies.

In the course of their long period of navigation and production, the Chinese people discovered the islands of the South China Sea, and they went there continuously to engage in fishing, mining, and reclamation. This offers powerful proof to China's ownership of the South China Sea islands. However, some people state that "occupation by private individuals does not lead to territorial sovereignty on the part of the country to which the private individuals belong. Only a state can be an ownership entity." On this issue, international practice and authoritative writings provide a clear-cut answer.

Permanent International Court justice J.B. Moore made a profound statement regarding the importance of discovery by a private individual. He said, "The position that the British government takes is that discoveries that private individuals make while going about their private affairs do not confer any rights cannot be entertained. Nothing in the reasoning of this case or in international law or practice supports this contention. If such discoveries do not confer rights, at least one can say that they impede the acquisition of rights through subsequent discovery by any other country. Even if acting on government mandate, they possess the clear intention of attaining this goal (i.e., discovery)" "If its existence is determined by visual apprehension....one might say that

a piece of land has been discovered. This is nothing more than a question of fact; either private individuals or public representatives may open up lands."³⁸

In discussing this issue, O'Connell said straightforwardly that "the actions of private individuals per se do not constitute first occupation; however, without the actions of private individuals, there can be no first occupation."³⁹

In defining "symbolic annexation," Brounlie also fully affirmed "actions of private individuals." He wrote: "Symbolic annexation may be defined as a declaration of sovereignty or other act, or as a nation's formal mandating or subsequent endorsement of a private individual's actions aimed at providing explicit proof of acquisition of sovereignty over a piece of territory or an island."⁴⁰

History has also verified the correctness of the foregoing argument. Spain's claim to the entire coast of American north of Mexico Bay was based on Amerigo Vespucci's 1498 discovery of Florida, and Ponce de Leon's 1513 landing on this coast.

In the 1953 *Minquiers and Ecrekos* case, the International Court also openly stated: "The existence of a private individual who is a citizen of a country may signify or having a bearing on that country's first occupancy." For land located on the border of two countries, "the actions of such a private individual are especially important in both parties claims of sovereignty over that area."

Doubtlessly, discovery of a place or an island is a matter of fact. Either a private individual or a public representative can do it. To ignore the role that mariners or private individuals play is inadmissible. Even though the discovery is by a private individual, at least this can prevent another country's subsequent acquisition of sovereignty by discovery. Certain country's contention that "private action does not lead to the territorial sovereignty of his country" runs contrary to both theory and practice on territorial acquisition in international law; consequently it is not tenable.

IV.

It is not necessary to go into detail here about Chinese historians exhaustive exposition of China's earliest discovery earliest development, and earliest exercise of jurisdiction over the islands of the South China Sea. Here only some brief historical facts will be cited as proof. Whether judged in terms of the international practice and international law of the 15th and 16th centuries or the contemporary international law of the 18th and 19th century, China's sacred sovereignty over the Paracel and Spratly archipelagoes is indisputable.

At the time of Han Wudi—during the second century BC—the Chinese people began to sail in the South China Sea. As a result of long practice in navigation, they discovered first the Paracel Islands and then the Spratly

Islands. Later on, the Chinese people steadily visited these archipelagoes, which they developed. At least from the time of the Tang and Song dynasties, the Chinese people were engaged in production activities such as fishing and reclamation work in the Paracel and Spratly islands. The histories of the Song, the Yuan, the Ming, and the Qing all carry accounts of how the Chinese people sailed to and explored the Paracel and Spratly islands for countless years, and information about the location and the position of islands and reefs in these two archipelagoes. Numerous historical accounts have termed the Paracel and the Spratly archipelagoes "Jiurulu Zhou," "Shihtang," "Qianli Shitang," "Wanli Shitang," "Changsha," "Qianli Changsha," and "Wanli Changsha." Historical relics including Ming and Qing dynasty houses, temples, and wells have also been discovered in the Paracel Islands. In a word, as long ago as the 15th century the Paracel Islands were Chinese territory, and the Spratly Islands were also part of China's domain. In accordance with international law and international practice prior to the 17th century, China had acquired ownership of the two archipelagoes through discovery and actual occupation.

The methods that the Chinese people employed in the exercise of jurisdiction over the Paracel and Spratly archipelagoes were varied. In ancient times, first, flotillas were sent out to patrol coastal areas and the territorial seas. A flotilla during the reign of Chao Yan of the Song Dynasty (960-1127), and the Guangdong flotilla under Deputy Commander Wu Yan during the years 49 - 51 (1710 - 1712) of the reign of the Kangxi emperor of the Qing Dynasty conducted patrols of the area of the Paracels. Owing to the limitations of ancient means of transportation and the geographical environment of the Paracels and Spratlys, the dispatch of flotillas on patrol became a major way in which ancient China exercised sovereignty over the islands beyond the seas. Second was making them a part of the Chinese domain and exercising jurisdiction over them. During Ming and Qing times, the Spratly Islands were placed under administration of Wanzhou in Hainan Prefecture, Guangdong Province. Third was astronomical surveys. Khubulai Khan (AD 1279) of the Yuan dynasty sent astronomers to the Paracel to conduct such surveys.

In recent times, the Chinese government has administered the Paracel and Spratly islands mostly by dispatching important military and civil officials there to set up stone monuments, by raising the flag and firing guns, by reiterating sovereignty, by dispatching garrison forces, by opposing and counterattacking foreign aggression, building lighthouses and meteorology stations, permitting the operation of certain enterprises, and establishing administrative organs for the local inhabitants and their activities. For example, in 1883, Germany proposed to conduct soundings around the Paracel and Spratly islands, but after the Qing government protested, Germany had no choice but to halt the soundings. As another example, in 1909, the viceroy of Guangdong and Guangxi provinces sent flotilla commander Li Zhun on

patrol of the Paracel where he inscribed stones with the names of places and raised the flag to reiterate sovereignty. As yet another example, during World War II, both the Paracels and the Spratlys fell into the hands of the Japanese in 1939. Following the Japanese surrender, both islands were returned to China. Acting in the spirit of the 1943 *Cairo Declaration* and the 1945 *Potsdam Declaration*, in November 1946 the Chinese Government appointed a high ranking official to command a ship that formally accepted the Paracel and Spratly with an acceptance ceremony being conducted at the islands. On the two largest islands of the Paracels and the Spratlys—Shuixing Island and Taiping Island—monuments were erected anew and troops sent to garrison them. Subsequently, surveying and mapping was carried out, with each of the islands, reefs, sandbars, and shoals being renamed. Meteorology stations and radio stations were also established. For many years following accession no country raised any objection to China's acceptance of the two island archipelagoes.

Furthermore, many countries of the world, as well as international opinion recognized the Paracel and Spratly islands as Chinese territory. Maps and encyclopedias that numerous countries published also acknowledged this objectively existing fact. Chinese diplomatic statements in this regard have been fulsome, obviating the need for extensive detail here. However, it must be emphasized that third country attitudes are also of crucial importance. As international law authority Jennings said, "Even in issues that are strictly between the two countries posing claims, the attitude of third countries has a direct bearing, ...if the process involved may be termed age-old possession rather than contrary possession." He also said: "In order to show that a sovereign has had possession for a long time, various kinds of proof, particularly the attitude of third countries has an important bearing."⁴¹ Kittichaisaree also maintained that "third country recognition or tacit recognition does not serve as a source of authority, but it does serve as valuable support for the country that actually demonstrates this authority."⁴²

It must be noted here that in order to give itself a pretext for occupying China numbers South China sea islands and reefs, a certain country went so far as to act on behalf of its colonialists to take advantage of the Japanese instigation of the September 18th Incident [the Japanese seizure of Shenyang in 1931] in which they brazenly invading and occupying China's South China Sea islands. This is still talked about with great relish. They regarded China's South China Sea islands as "res nullius," and France's aggression was portrayed as a "first occupation act." This was an out-and-out distortion of international law.

On 4 December 1931, the French Government presented a note to the Chinese ambassador to France declaring that the Annam Empire held so-called "primary rights" to the Paracel Islands, openly raising a territorial claim on these Chinese islands. The Chinese Government immediately issued a serious denunciation that pointed

out that the Paracel Islands have long been under Chinese suzerainty. Not long thereafter, the French colonialists further invaded and occupied nine small islands in China's Spratly Islands.

The nine small islands that the French occupied were among a group of coral reefs in the southern part of the South China Sea, most of which were drowned at high tide, hidden reefs appearing at low tide. The nine islands were fairly large islands among the reefs that extended above surface of the sea. In addition to guano, these nine islands of the South China Sea are rich in fish, shellfish, and turtles. In 1867, when the British channel marker ship *Rifleman* was taking soundings here, the crew said that each of the islands of the South China Sea were filled with Hainan fishermen who made a living from catches of beche-de-mer and shells. Quite a few fishermen also lived here year-round. Junks from Hainan carrying rice and other necessities visited each of the islands each year to trade supplies with the fishermen for their beche-de-mer and shells. When France invaded the nine islands in 1933, only Chinese lived on each of the islands. There were no people from other countries. Temples, rush huts, reed huts and wells remained on some of the islands. All these things provide irrefutable proof that the people of China have long been operating in these islands. Both *China Sea Pilot*, which is published in the United Kingdom, and *Asiatic Pilot*, which is published in the United States carried accounts that provide proof. Even the French Navy discovered that Chinese fishermen lived on at least two of the nine islands that France invaded and occupied.

Objects for first occupation must be places that have no owners and where sovereignty can be established. As was said earlier, the nine islands of the South China Sea have had Chinese fishermen living on them at least for the period 1867 - 1933. These lands where people have lived for a long time have nothing whatever in common with the so-called "res nullius" of international law. No country could regard them as objects for "first occupation." Japanese international law scholar, Fusinats [sic] made the following proposal at the 1933 conference of *L'Institut de Droit International*: "Any land that is not under sovereignty or protection of a nation should be regarded as 'res nullius' whether or not it has inhabitants."⁴³ This proposal is clearly unsatisfactory; thus, it was never passed.

A certain country stated that when France occupied the nine islands of the South China Sea, the Chinese Government never lodged a protest because France enjoyed "first occupation rights." This is a distortion of history. The fact is that France's aggression was met immediately by strong resistance from the Chinese people, particularly the fishermen of Hainan, to the point where the French flag and flag pole were cut down. On 4 August 1933, the Chinese Government presented a note to the French Government reserving the right to make representations to France on the occupation of the islands pending full investigation of the facts. On 16 August, the

Southwest Political Affairs Committee, which was under orders to handle the nine islands case, lodged a protest with France.⁴⁴

In April 1909, The viceroy of Guangdong and Guangxi provinces, Zhang Renjun, appointed Guangdong flotilla commander Li Zhun to lead navy officers and men on a patrol of the Paracel Islands. The group charted 15 islands on which it inscribed their names on stone. At Yongxing Island, they fired their guns and raised the flag in reiteration of China's sovereignty over the Paracel Islands. In 1920 when the Japanese planned to mine the guano on the Paracel Islands, they first sent an official dispatch to the French naval headquarters in Saigon inquiring whether the islands belonged to France. The headquarters replied that they did not. In 1921, the governor general of Taiwan used the fishing industry, the reclamation, and the guano mining in the islands belonging to the Paracel Islands Industrial Company that He Ruinian had set up there. Actually, the company was a branch of the Japanese Nanko Enterprise Company. It was subsequently learned that He Ruinian had transferred the company operating rights to the Japanese, but had immediately cancelled the operating rights in the face of opposition from his countrymen.⁴⁵

History long ago testified that "Changsha" and "Shitang," i.e., the Spratly Islands and the Paracel Islands in the South China Sea were ocean lands under jurisdiction of Wanzhou. During the 15th Century, the South China Sea Islands were a part of Wanzhou in Hainan Prefecture, Guangdong Province.⁴⁶ At least several hundred years ago the islands of the South China Sea were incorporated into the Chinese domain, and were not any "res nullius." The French gunboat *Mallceuse's* occupation of the islands of the South China Sea on 13 April 1930 claiming "first occupation" was totally untenable.

In the early 19th century, the noted authority on international law, Wheaton, said: "The enduring practice that all countries have approved shows that no matter how termed, a nation's uninterrupted occupation of territory or other assets over a long period of time eradicates the claim of all other nations. As with physical law and the internal laws of every country, similar individual ownership eliminates the claim of every other person pertaining to assets or property."⁴⁷

In his work on international law standards, Heydte said straightaway that when a nation "seeks to acquire an area that an adversary has occupied for a long time, this action inevitably demonstrates that meddling with existing sovereignty rights is wrong from the outset."⁴⁸

On the basis of the foregoing, the islands of the South China Sea have been Chinese territory since ancient times. Encroachment on them by any country on any pretext and employing any means is absolutely inadmissible. "Illegal actions do not create rights." (Ex imperia jus non oritur). During the 1930's, the French colonialists' flagrant occupation of China's South China Sea islands was entirely aggression. It cannot change the fact

that these islands belong to China. For any country to try to use the brief occupation of the Paracel Islands and the Spratly Islands by the French colonial authorities to defend its invasion and occupation of the Spratly Islands is completely futile.

V.

The Paracel Islands and the Spratly Islands have been Chinese territory since ancient times. In the *Sino-French Special Provisions For Continued Discussion of Boundary Matters* that China concluded with Annam, which was a dependency of France at that time, the islands of the South China Sea were not placed under administration of the French dependency of Annam. The Paracel Islands and the Spratly Islands were acknowledged to belong to China. The islands that treaty divided up were only offshore islands along the coast of Guangdong Province at that time without reference to the islands of the South China Sea. On the issue of sovereignty over the islands of the South China Sea, no controversy has ever existed between China and Vietnam. For an appreciable period of time, the Vietnamese authorities have more than once recognized these islands to belong to China in government announcements or notes.

In a meeting with China's charge d'affaires ad interim to Vietnam on 15 June 1956, Vietnam's deputy minister of foreign affairs, Ung Van Khiem [7167 2429 6197] stated solemnly that "historically, the Paracel Islands and the Spratly Islands have been territories that should belong to China."

The statement that the Chinese Government issued on 4 September 1958 on China's territorial seas explicitly noted that the territory of the People's Republic of China includes the Paracel and the Spratly Islands. On 14 September of the same year, Vietnam's Premier Pham Van Dong said in a note to Premier Zhou Enlai that the government of "Vietnam recognizes and approves" this announcement, and "respects this decision."

The 9 May 1965 Vietnamese Government announcement about the American Government's declaration on the "combat zone" of the American forces in Vietnam and nearby areas also clearly recognized that the Paracel Islands belong to China. The announcement said: "U.S. President Johnson has ruled that all of Vietnam as well as its neighboring waters—an area approximately 100 nautical miles off the coast of Vietnam and a part of the territorial sea of the People's Republic of China Paracel Islands—is a combat zone of the armed forces of the United States."

However, Vietnam overturned its previous recognition of the Paracel Islands and the Spratly Islands as territory belonging to China. In 1975, it illegally occupied some of the islands in China's Spratly Islands archipelago, and brazenly lodged a territorial claim against both the Paracel and Spratly islands. This is in contravention of the pertinent international law principle of estoppel.

The world-renowned Black's Law Dictionary defines "estoppel" as "a party not being able to claim a right that hurts another party because of some action that he himself has taken. The other party has a right to rely on the first party's action, thereby causing the turn of events. When the law forbids actions and words that are at variance, estoppel occurs." Black also believed that "an inconsistent standpoint, attitude, or line of behavior may not be adopted that causes loss or damage to another party."⁴⁹

The abovementioned concept has gained the support of numerous international law authorities. In discussing "estoppel" or the "principle of preclusion," International Court Justice Jennings said categorically that "International Court acceptance of this principle is now affirmed beyond doubt."⁵⁰ Justice McNair also said that "it is sensible to hope that any legal system will include such a provision." "It is aimed at eliminating the expression or approval of a statement and another person relying on a person with whom he has a tacit agreement, only to have that person advocate a materially different condition later on."⁵¹ Brounlie praised "estoppel" as an international law norm based on "good faith" and the principle of consistency.⁵²

Cambridge University international law chair professor Bowett said that going back on one's word is not permitted, including "acquiescence." In civil law, "estoppel" is also termed the principle of exclusion, i.e., a party holding special position who acquiesces may not later take actions at variance with his words. In Bowett's view, "estoppel has three elements as follows: (1) a clear-cut and unambiguous statement regarding a fact; (2) the statement must be voluntary, unconditional, and authorized; and (3) sincere reliance must be placed on the statement, a party being injured by relying on the statement or a party benefitting from making the statement."⁵³

Maintenance of a nation's territorial integrity is the sacred duty of every state. The clear-cut and unambiguous expressions of the top leaders or senior officials of a country regarding a reality, particularly a territorial issue, on behalf of their own country such as a statement or a note, has binding force on that country. The responsibilities promised may not be evaded on pretext of a so-called war climate.

In view of "estoppel" or the "principle of exclusion" in international law, since the government of Vietnam formally recognized China's sovereignty over the Paracel and Spratly islands, there should be no subsequent controversy over these two island groups. This principle has been upheld in numerous international law decisions.

In the 1933 East Greenland case, for example, Denmark also quoted the "estoppel" principle, declaring that Norway had itself recognized by treaty or other means Denmark's sovereignty over all of Greenland. It could

not now raise objections. The Permanent International Court held that in international relations a country must be bound by the statements of its representatives (diplomatic ministers). Oral statement were also regarded as binding on Norway, because Aihelun [transliteration], who represented the government of Norway on a matter within the purview of his status as a diplomatic minister, had issued a statement in reply to issues that the Denmark diplomatic representative had raised with him.⁵⁴

Another example was the following remarks of International Court Justice Sir Gerald Fitzmaurice in the 1962 Temple case: "In a case in which a party is bound by his conduct or other duties that he discharges, or becomes bound by a duty, strictly speaking, the quoting of any rule of preclusion or estoppel is not required." "Consequently, it may be said that once party A accepts the restrictions of certain duties or becomes restricted by a document, he cannot now become erratic... or deny this fact. Certainly, one cannot hear of Party A denying it. Just what does this mean? It means simply that Party A is under restrictions and is now under restriction; he may not escape his responsibilities simply by denying their existence. This is to say that if one can demonstrate that a denial is false, there is no room for or need to contradict preclusion or estoppel." Sir Gerald's remarks are concise and comprehensive. How incisive and profound!

The principles of international law will brook no trampling. Vietnam must bear legal responsibility for its promises, and it must sincerely observe its legal obligations. It may not raise objections about these two Chinese island groups, must less will it be permitted to take it upon itself to invade and occupy the numerous islands and reefs in China's Spratly Islands.

VI.

To summarize, (1) the South Sea, is also termed the South China Sea in translation. Even though China has never used the term South China Sea, this has become the term by which the South Sea is known in other countries, particularly Western countries. The Chinese people discovered the Paracel and the Spratly Islands in the course of nearly 2,000 years of sailing the seas. Since the 15th century at least, these two archipelagoes have been incorporated into the Chinese domain. All of the islands of the South China Sea have been Chinese territory since ancient times. Not only does a large quantity of references—both ancient and modern, domestic and foreign—attest to this, but it is generally recognized by all the countries of the world. As the name implies, this beautiful term "South China Sea" was not bestowed by the colonialists out of great love for China, but rather is the formal recognition of objectively existing historical fact.

(2) Intertemporal law has become a generally recognized norm of international law, and it is also a keen weapon that can be used to interpret China's inherent sovereignty over the islands of the South China Sea. The

means by which a territory is acquired, such as by discovery or first occupancy, should be determined by applying international laws in effect at the time when authority is obtained, and not by applying laws in existence at the time that a claim is made or a controversy arises.

(3) In accordance with the principles of international law, whenever international law authorities discuss the issue of territorial acquisition, most of them distinguish between the international law of the 15th and 16th centuries and that of the 18th and 19th centuries. Only during the last half of the 18th and the early 19th centuries did international law require "effective occupation." During 15th and 16th century era of great discoveries, symbolic acts sufficed to provide *res nullius* legal rights. The practice of various countries shows that during the 15th and 16th centuries, acquisition of territory through discovery or overseas colonization was a common occurrence. By both international law and international custom during the 15th and 16th centuries, and by the recent international law of the 18th and 19th centuries, China was the earliest to discover, the earliest to develop, and the earliest to exercise jurisdiction over the Paracel Islands and the Spratly Islands; therefore, China's sacred sovereignty over the islands of the South China Sea is incontestible.

(4) Even though "discovery" does not constitute the acquisition of territory through first occupation, it does give the discovering country "initial rights" or "incomplete rights." For other nations, this means that the discovered land becomes "prohibited territory." Until the discovering country exercises "effective occupation" within a reasonable period of time, it "serves to prevent other countries from occupying it." In barren or uninhabited lands, courts have been content with the slight exercise of rights in numerous cases so long as no other country has expressed a "prior claim." Vietnam's contention that China's "earliest discovery right, earliest occupation right, and symbolic occupation principle" is "out of date" or has been "abandoned" is without foundation.

Discovery of a place or island is a factual act that either a private individual or a public agent may perform. To ignore the role that mariners or private individuals play in discovery and not to confer any rights as a result is inadmissible. Discovery by a private person, particularly when subsequent events provide confirmation can at least prevent other countries from acquiring rights through subsequent discovery. Vietnam's contention that "private person occupation does not lead to territorial rights on the part of the country to which he belongs" runs counter to the theory and practice of territorial acquisition, and it is basically untenable.

(5) The object first occupied must be *res nullius*. During the period 1867-1933, at least, Chinese fishermen lived on nine small islands in the South China Sea. This long period of habitation shares nothing in common with the "res nullius" of international law. No country may

regard them as "first occupancy" objects. During the 15th century, the islands of the South China Sea were already a part of Wanzhou, in Hainan Prefecture, Guangdong Province and had been incorporated into the Chinese domain. "Illegal acts do not confer rights." The French colonialists brazen occupation of nine of China's islands in the South China Sea during the early 1930's was an act of pure aggression that cannot change the fact that the islands belong to China. Vietnam has absolutely no reason for prettifying this act as "primary occupation."

(6) Originally no controversy existed between China and Vietnam about sovereignty over the islands of the South China Sea. For a considerable period of time, the Vietnam authorities acknowledged in announcements and official notes that the Paracel and Spratly islands belonged to China. Since 1975, however, Vietnam has reversed its position and occupied some of the islands in China's Spratly Islands archipelago illegally, and brazenly placed claim to both the Paracel and the Spratly islands. This runs counter to the estoppel principle in international law. The clear-cut statements or notes of a head of state or senior leaders of a nation made as a representative of that government are binding on that country, which cannot escape responsibility for its promise under any pretext.

Footnotes

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6), 20), 48). See Heydte, "The International Law That the United States Applies and Expounds," Boston, 1947, Vol 2, pp 323, 325, and 326.

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- 32). Feideluosi [phonetic] *International Law*, Vol 1, Chinese edition 1981, p 342.
- 36). *Permanent International Court Publications*, Series A/B, No 53, p 46.
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- 40), 52). Brounlie, *Principles of International Law*, 1979, pp 151 and 163.
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- 45). Hu Huanyong, "The South China Sea Islands That France and Japan Covet," *DIPLOMATIC REVIEW*, Vol 3, Issue 5, 1934, pp 70 - 71; Zhuo Min, "The Triangular Relationship Among China, Japan, and France on the South China Sea Nine Islands Issue," *WAIJIAO RIBAO [FOREIGN AFFAIRS DAILY]*, 1933, Vol 3, Issue 3, 1933, p 81.
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Ways Cadres Can Meet Test of Being in Power

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[Article by Tang Bingren (0781 4426 0088) of the Hunan Provincial CPC Committee Party School: "Communist Party Members Must Withstand the Test of Being in Power"]

[Text] The greatest test which the CPC faces after having wrested state power in the entire country and becoming the party in power, is the test of being in power. In the current situation, if the party is to withstand the test of being in power, it must do a good job in party building.

Requiring Communist Party members to withstand the test of being in power is a requirement for consolidating the ruling position of the party. The holding of power by the CPC is the holding of power by the entire party, representing the working class and the broad masses. It is not the holding of power by some people within the party seeking benefits for a minority. This is the essential difference between a Communist Party holding power and a bourgeois political party holding power. Consolidating the ruling position of the party is an unshirkable duty of party organizations at all levels and the whole body of Communist Party members, and is also a long-term task for the working class and the people of the whole country under the leadership of the party. Only if the entire body of Communist Party members can withstand the test of being in power and can unify the people of the whole country to safeguard the ruling position of the party will it be possible to consolidate the ruling position of the party.

Holding power, as a basic aspect of the political practice of the party, serves the realization of the party's overall goal of struggle. At present, whether or not we can finally create a labor productivity that is higher than that of capitalism is the most important test for the party in terms of its ability to hold onto power and is also a crucial issue in whether or not the party's position as the incumbent party will have a reliable material base. Since the Third Plenary Session of the 11th CPC Central Committee, our party has summed up the experiences and lessons since the establishment of the PRC and of the international communist movement, gradually formed a basic line of "one center and two basic points" and formulated strategic goals by which our country's national economic and social development is "divided into three steps." The current task is to accomplish the second-step strategic goal by the end of the century, so that GNP is again doubled and the people's lives reach a comfortably-off level. Only if the entire body of Communist Party members firmly establish in their work the idea of "taking economic development as the center," so that their work is subordinate to and serves this center, and they use their own actions to influence, unify, and lead the broad masses to struggle to develop the economy

and realize the four modernizations, will it be possible for us to realize the overall tasks and strategic goals of the party at the present stage.

Requiring Communist Party members to withstand the test of being in power is also intended as a reliable guarantee in guarding against and resisting peaceful evolution. At present, the Communist Party's hold on power faces a real threat, and that is the strategy of peaceful evolution being waged by international hostile forces. Whether or not the plot by the international hostile forces will succeed will be determined by the situation within the communist parties that are in power in socialist countries. Only if the entire body of Communist Party members and especially leading cadres of the party are able to soberly recognize this danger and consciously consolidate and safeguard the ruling position of the party and make a contribution to building the party will it be possible to provide a reliable political guarantee by which to withstand peaceful evolution.

What tests does the party's hold on power present to Communist Party members?

—The tests presented by changes in environment and social position. The Communist Party's hold on power is the work of the people of the whole country, led by the party, engaging in long-term revolutionary struggle and obtaining victory. Thus, in terms of the entire nation, the establishment of the ruling position of the party means that the domestic revolutionary struggle period has finished and the peaceful construction period has begun. However, in a peaceful environment, a small number of party members may experience inflated individualism and gradually lose their links with the masses, and the practices of bureaucracy may spread. These practices may even spread to where these persons seek easiness and comfort, do not think about progress, and are unwilling to undergo any more arduousness in life. They thus have gradually lost the fine tradition and work style of arduous struggle and therefore, on the ideological level, have lost the screen by which to withstand decadent capitalist ideas and lifestyles. Their political sensitivity may also gradually decline, they will lose their vigilance against the infiltration and subversion by hostile international forces and the plot of peaceful evolution, and they will be unable to consciously uphold the four cardinal principles or oppose bourgeois liberalization and, on basic issues such as leadership by the party and the socialist road, they will be apathetic and unable to distinguish right from wrong. It is also possible that organizational discipline will be weakened and that liberalism, anarchism, and extreme individualism will make use of this opportunity to raise their heads. These are important reasons why negative and corrupt phenomena can spread within the party and cannot be effectively controlled.

—The tests of power and responsibility. Members of the party in power and particularly leading cadres, hold varying degrees of power in their hands. Learning how

to treat power and how to use power is a basic element in having Communist Party members withstand the test of being in power. The nature of the Communist Party and the socialist state determines that all power of the state belongs to the people. Communist Party members are public servants of the people and also overall servants of the people. Power which belongs to the people should be used to benefit the people. However, if a small number of party members and leading cadres are decadent and degenerate or there are some unhealthy trends within the party, the power of socialist countries may be misused and become a tool of a few people or of a small group of people to seek private benefits. Thus, whether or not Communist Party members can withstand the test presented by power will affect whether or not they can maintain the hue of vanguard fighters of the working class, whether or not Communist Party members can maintain tight links with the masses, and thereby, whether or not the nature of the party and the state will change. We must not treat lightly or be indifferent to such a major life-or-death issue.

In using power properly, the most important thing is to formulate a correct line, principles and policies and realistic measures to implement them. The party, as the political party holding power, has directly shouldered a major historical responsibility regarding the life or death of the Chinese nation. If the line, principles, and policies are correct and the leadership is firm and powerful, the development of the socialist cause will be promoted throughout the whole country and social progress will be promoted. This will benefit strengthening the state and enriching the nation and will bring real benefits to the people of all nationalities throughout the country. If there are mistakes in decision-making, it will bring great losses to the broad masses. If the mistakes are serious and they long remain uncorrected, they will provide opportunities for domestic and foreign hostile forces to subvert the socialist system. Also, since this will directly harm the interests of the masses, the party will become divorced from the masses and will lose the hearts of the people. Whether or not the party's leadership is correct and whether or not decision-making is in accordance with our country's realities and the basic interests of the people, first directly involves the party members who shoulder leadership tasks and especially those who shoulder central leadership tasks. It also involves organizations at every level of the party and every single Communist Party member. Ordinary Communist Party members live among the masses and have the greatest understanding of the aspirations, opinions, and demands of the masses. They also personally experience the benefits or damage of party policies when they are implemented. They can thus, in a timely way, reflect rich and truthful information to the higher leadership organs through organizational channels and other channels. This will provide a reliable base for correct decision-making by the Central Committee. After the party Central Committee formulates the correct line, principles,

policies, and plans, it also requires the party organizations at all levels and the broad number of party members to implement them. As far as individual Communist Party members are concerned, whether or not they have a strong party spirit, strong sense of historical responsibility, ardent spirit of enterprise, a spirit of serving the people's interests and upholding truth without considering one's own interests or safety, in brief, whether or not they are willing, brave enough, and able to be responsible to the people and responsible to history, is certainly an important yardstick for assessing whether, under conditions in which the party holds power, individual Communist Party members can withstand the test.

—The test of material interests. In the initial stage of socialism, the party as the incumbent party, must take the liberation and development of the productive forces as its basic task, and to this end it is now putting great efforts into developing a planned socialist commodity economy and implementing reform and opening up. Under these new historical conditions, every Communist Party member faces the test of material interests. Communist Party members must respond to the party's call and seriously implement the party's basic line of "one center and two basic points," actively throw themselves into developing the socialist commodity economy and struggle for the common prosperity of the masses. However, it should be recognized that leading cadres are spread out in major work posts in various sectors and industries and hold power over personnel, finances and materials. If they are subject to negative influences, some party members may forget the party's aim and may see their own material benefits as being extremely important. Some may be unable not only to lead the masses to common prosperity, but may not hesitate to harm public interests in order to benefit private interests, and harm other people to benefit themselves. This will greatly harm and weaken the ruling position of the party. The practice over the last 10-odd years has proven that Communist Party members ability to withstand the lure of material gain has become a major aspect in being able to withstand the test of being in power.

If Communist Party members are to withstand the test of being in power, they need to put forth unremitting efforts in all areas, and there are three points which particularly need to be stressed:

First, there is a need to continually strengthen the consciousness of being in power. Withstanding the test of being in power is a major issue faced by the entire body of Communist Party members. First, party-member leading cadres must treat this issue in a serious way. This is because leading cadres have a more major responsibility when the party is in power and they they must have a higher consciousness for withstanding more rigorous tests. However, this does not mean that ordinary party members can weaken their consciousness of being in power. Some comrades believe that being in power is a matter for leading party cadres and that

because they themselves are ordinary party members and have no post and power, there is no need for them to concern themselves about the test of being in power. This is a one-sided understanding. Every Communist Party member, as a member of the party holding power, participates in the practice by which the party holds power and has a responsibility to struggle to consolidate the party's ruling position. Whether or not an individual party member can withstand the test of being in power is not equivalent to and does not determine whether or not the entire party can withstand the test of being in power. However, it is not without effect in whether the party can withstand the test of being in power or can consolidate its ruling position. This is because the party is, in fact, composed of millions of ordinary party members and the advanced nature of the party is manifested in the vanguard role of every ordinary party member. Ordinary party members are, in the eyes of the people, representatives of the Communist Party (although strictly speaking individuals cannot represent the party), or represent the party incarnate. The masses always see the party and appraise it on the basis of the ideas, words and actions of ordinary party members with whom they regularly come into contact, and this determines their attitude toward the party. The party also, in the end, maintains its links with the broad masses through 50 million ordinary party members who are distributed in over 3 million grass-roots organizations throughout the country, and who live and work among the masses. It is these members who implement at the grass-roots levels the party line, principles and policies and carry out the various tasks. They also carry out at the grass-roots level the party's leading role in the socialist cause. Thus, although ordinary party members are party members without official posts, they are certainly not unconnected with being in power and are in fact very closely connected. Practice has proven that if the party is vibrant, we are honored; if the party is in decline, we are disgraced. Thus, if one is a Communist Party member, one must consciously safeguard the ruling position of the party and must bring into play the role of one who is a member of the party in power.

Second, it is necessary to consciously improve the skills necessary to hold power. If Communist Party members are to withstand the test of being in power, besides having a strong consciousness about being in power, there is also a need to have the skills necessary when holding power. That is to say, as a member of the party in power, one needs to have the knowledge and abilities necessary to complete the party's historical mission. One must be good at examining and handling problems from the political angle and be good at correctly understanding and completely implementing the basic line of the party. at the political level, one must maintain a high degree of uniformity with the party Central Committee. One must also do well in one's own work, proceeding from the high plane of consolidating the party's position in power. One certainly must not be a political bumbler. It is necessary to work at studying science, culture and technology, and improve one's ability to do well in one's

own post. One must improve one's ability to plan for the overall situation and to coordinate the various interests relationships among individuals, the collective, and the state. It is also necessary to set an example for the broad masses in subordinating partial interests to overall interests and subordinating personal interests to collective and state interests. It is necessary to improve one's skills in closely linking up with the masses, travelling the mass line and fully mobilizing the enthusiasm of the masses. It is necessary to constantly think of the masses, become one with the masses in all respects, attentively listen to the calls of the masses and reflect these in a timely and truthful way to the upper levels or directly to the central committee, wholeheartedly do real and good things for the masses, have the broad masses unite around the party and, with one heart and mind, join with the party in building socialism with Chinese characteristics.

Third, it is necessary to painstakingly engage in the tempering of party spirit. If one is to withstand the test of being in power, the most basic aspect is to firmly and unwaveringly strengthen the tempering of party spirit, and seriously transforming one's world view. The firmest, purest, most complete, and most thoroughgoing proletarian party spirit is the unity of the class nature of the proletariat and the scientific nature of Marxism. If one has a proletarian, scientific world view and a firm party spirit, one is able to correctly deal with power and responsibility. With the complex situation internationally and domestically, in the unprecedentedly complex tasks of socialist modernization and reform and opening up, the various difficulties we have met on the road forward have been unable to defeat us. Instead, they have tempered us and made us more mature and more firm. A firm and pure proletarian party spirit is not and can not be formed spontaneously. Rather, it can only be established through the unwavering tempering and cultivation of party spirit. Only if we seriously study Marxism and Mao Zedong Thought and painstakingly transform our world view through practice will we be able to become Communist Party members with a firm party spirit, will we be able to withstand the various harsh tests which being the incumbent party presents us, and will we be able to make contributions worthy of a Communist Party member to both the country and the nation.

Article Urges Seeking Truth From Facts in Reform
HK0608141392 Beijing GUANGMING RIBAO
in Chinese 13 Jul 92 p 3

[Article by Ye Guangrong (0673 0342 2837): "Reform, Opening Up, and Seeking Truth From Facts"]

[Text] Comrade Deng Xiaoping indicated: Just as in the past we relied on seeking truth from facts in fighting a war, so today we must rely on it construction and reform. Seeking truth from facts is our party's ideological line, and it fully embodies the basic views and approaches of Marxist philosophical thinking. It requires us to start

with the actual conditions in everything we do, to link the subjective with the objective, to link theory with practice, and to act according to objective law. Practice over dozens of years has shown that whenever we consciously adhered to seeking truth from facts, our cause developed and our work was characterized by marked results. In other cases, our cause suffered setbacks, and mistakes surfaced in our work.

I.

Both the proposal and development of reform are the progeny of seeking truth from facts. It was precisely due to our party's study of China's socialist modernization, which was undertaken in a truth-seeking manner, that the party's basic line of "one center, two basic points" was formulated. In the remarks Comrade Deng Xiaoping made during his southern inspection tour—at a critical moment in building socialism with Chinese characteristics—he profoundly discussed how to resolutely implement this basic line in a truth-seeking manner; his remarks are an important weapon for guiding the new undertakings of reform and opening up and have universal significance for guidance. However, under our national conditions of a vast territory, huge population, and great imbalance in economic, political, and cultural development, failing to take into consideration the differences between various localities, simply copying others' experiences without making changes and demanding uniformity in everything, "with everybody wearing a hat and a pair of shoes in the same size," is likely to cause us to become divorced from various localities' actual level of development. This being the case, Comrade Jiang Zemin has emphatically pointed out: In implementing the spirit of Comrade Deng Xiaoping's remarks and organizing the implementation of various central work arrangements, it is imperative that we bring implementation in line with the actual conditions of one's locality, while making such implementation concrete. Quickening the pace of reform and opening up must comply with the actual conditions of one's locality. Every locality or unit must proceed from its own actual conditions and must seek its own law of development that accords with its reality. For example, on the issue of hinterland development, when consulting with some coastal provinces and cities, the hinterland should take their experiences into consideration but should refrain from copying the special economic zones' experiences wholesale, while showing respect to the objective law governing the local economy, politics, and culture, and seeking the inherent links and best juncture in local development in order to blaze a new trail that falls in line with local characteristics.

II.

Practice is the source of knowledge, the criterion for testing truth, and knowledge's ultimate goal. This is precisely the reason why adhering to practice, boldly conducting experiments, and blazing new trails constitutes an extremely important work method which our party has advocated all along, in addition to the basic

task of seeking truth from facts. In his remarks during his southern inspection tour, Comrade Deng Xiaoping pointed out: The successes of reform and opening do not rely on books, but on practice and seeking truth from facts. New conditions, issues, and contradictions have continuously surfaced, and they urgently await answers through practice—not retrogression in an effort to seek steadiness and to avoid contradictions, loss of opportunity, and failure while striding toward progress. For this reason, it is necessary for us to grasp firmly the favorable opportunity, go all out, and be bold in practice. For things that we have become certain of through observation, we must be bold in conducting experiments and in blazing new trails. Observation means understanding. Being sure of something through observation is the law of knowledge. Both knowledge and grasping the law are inseparable from practice; they constitute the "seeking" in seeking truth from facts. Here, it also includes boldly absorbing and referring to all achievements of civilization created by human society, as well as the advanced operational ways and managerial methods of all countries including developed capitalist countries. Through practice, boldly conducting experiments, blazing new trails, and exploring the new characteristics of various localities and units in development, a new road of reform will be found by deeper exploration of a law governing reform in compliance with one's own locality or unit. Any other situation—which lacks the spirit of blazing new trails and "taking risks," lacks energy and vigor, and is characterized by sitting around indulging in theoretical discussions and not moving even an inch forward—will not help in exploring the law and making progress according to the law, but will only miss the opportunity, impede progress, and even bury the socialist cause.

III

The people are the makers of history, the decisive force in realizing social change, and the subject of reform and opening up. The mass line "from the masses, to the masses," which our party has created and developed in long-term revolution and construction, is the basic line and work method for realizing the party's cause, and the basic channel of seeking truth from facts; thus our party's fine tradition and political advantages have taken shape. Comrade Deng Xiaoping pointed out in his talks during his southern inspection tour that many elements of rural reform were created at the grass-roots level, and that these have been processed into guidance for the entire country. The system of contracted responsibilities on a household basis with remuneration linked to output was precisely the peasants' creation. The system went through three phases in its development: In the first stage, the system was forbidden in terms of policy. The initial stage of rural reform set out to restore the responsibility system with agricultural production; however, contracting output quotas to households with the production team conducting unified accounting was not allowed, while it was believed that this practice meant restoration, going it alone, retrogression, and capitalism. Under such circumstances, peasants in some localities

pursued the output-related system of contracted responsibilities all the same, and, consequently, the development of agricultural productive forces was promoted. The second stage was the relaxation in policy, with the rapid development in contracting output quotas to households, with the production team conducting unified accounting. And the third stage was one of actively spreading the system, which pushed reform nationwide and elevated agricultural production to a higher plane. Therefore, we can see that the criterion for judging the correctness of rural reform—the system of contracted responsibilities on the household basis with remuneration linked to output—should be whether it is conducive to developing the productive force of socialist society, augmenting the comprehensive national strength of the socialist country, and improving the people's standard of living. This being the case, at a crucial point when reform and opening up are moving from a shallow to a deeper level, it is necessary to be adept at discovering the new path, which is consciously created by the masses in great social practice and complies with reform and opening up in various localities and units. It is also necessary to study and guide the new path discovered by the masses, change it into mass conscious action, test it in practice, and achieve its enrichment, completion, and perfection. Furthermore, this is the essential requirement of seeking truth from facts.

IV

Back during the democratic revolution, Comrade Mao Zedong profoundly stated that according to the people's way of thinking, subjectivism and seeking truth from facts are opposites; to govern one's own conduct by subjectivism that runs counter to science and Marxism is a style by which to harm oneself; teaching it to others is to harm others, and using it to direct the revolution is to harm the revolution. What is worth our vigilance and thought is the fact that subjectivism, as of today, has not been weeded out of the people's way of thinking, and has become the greatest ideological hurdle seriously impeding the deepening of reform and opening up. Comrade Jiang Zemin has indicated that both "leftism" and rightism are characterized by onesidedness and find their roots in subjective materialism. Real life shows that "leftism" finds expression in "putting above all else instruction from higher-up as well as book knowledge" and copying them intact; this chiefly refers to standing by some unscientific—and even completely distorted—past understanding of socialism, a dogmatic interpretation of some Marxist principles, or incorrect ideas and policies which go beyond the initial stage of socialism in advance of reform and opening up, all the while failing to take the Marxist stand, viewpoint, and approach in order to analyze the changed objective realities; consequently, it is difficult for them to accept the policy of reform and opening up, which is even being doubted and negated among them, while taking—and even pushing—economic construction as the center in the train of thought of "taking class struggle as the key." Rightism, meanwhile, mainly finds expression in doubting and

negating the four cardinal principles, pursuing bourgeois liberalization, and even creating political turmoil in an attempt to change our socialist system and the correct orientation of reform and opening up. On this point, Comrade Deng Xiaoping pointed out in his remarks, "leftism" bears some revolutionary colors, and it seems the more "leftist" one gets, the more revolutionary one will become. Rightism can bury socialism, but so can "leftism." China should be vigilant against rightism but should mainly guard against "leftism." This being the case, we are required to emancipate the mind and overcome subjectivism. To emancipate the mind means precisely to be bold at breaking through the bonds of backward traditional concepts, be good at proceeding from actual conditions, and work hard to blaze new trails to make progress; furthermore, it means to make one's thinking break through the shackles of subjectivism, face reality, reflect the law governing the objective law, absorb the positive factors in objective things, and set out the theoretical principle to promote social development while implementing it in practice.

V.

Seeking truth from facts is also a topic of materialism, the theory of cognition, and dialectics. It calls for us to view matter objectively, comprehensively, and dialectically. Presently, in the course of quickening the pace of reform and opening up, seeking truth from facts calls for adhering to the dialectical unity of building the two civilizations and developing the social productive forces. Comrade Deng Xiaoping has on several occasions indicated that the modernization we are pursuing is socialist modernization. If we attach importance only to economic results, while looking to monetary returns from everything, we will inevitably be led astray and will deviate from the socialist track. As we all know, socialist material and spiritual civilizations supplement and promote one another. It is correct that we have attached importance to building a material civilization since reform and opening up; meanwhile, we have somewhat neglected building a spiritual civilization. To make money for their own economic interests, some units have disregarded the greater society's interests. The phenomenon of selling phony, imitation, counterfeit, and inferior commodities often takes place in the marketplace, while the consumer's interests are seriously harmed. Unhealthy and even pornographic pictures, books, audio, and video products surface in the culture market, and these have gravely poisoned the people's minds. Consequently, ideological confusion has surfaced, and bourgeois liberalization has run amok, with a corresponding degradation in social ethics. The ugly social phenomena that widely existed in Old China and the dregs of society that were wiped out in the early days of New China's founding have floated up again. This being the case, Comrade Jiang Zemin is requiring us to adhere to "grasping work with two hands," grasping reform and opening with one hand and cracking down on all sorts of criminal activities with the other. In the wake of

implementing reform and opening up, we opened the gate and some good things have entered from abroad, while at the same time, some negative and decadent things were also brought in, perniciously affecting people's minds, especially those of teenagers. To implement "grasping work with both hands" means precisely to effectively guard against and reduce the occurrences of various ugly phenomena. On the other

hand, our various undertakings in socialist modernization are in a period of comprehensive development and coordination with each other. Economic construction should develop; at the same time, a good job must also be done regarding people's ideology, ethics, and scientific and cultural qualities as well as social atmosphere. Only then will it be possible to promote comprehensive social progress and civilization throughout society.

NATIONAL AFFAIRS, POLICY

On Scope for Market Economy Under Socialism

92CE0597A Beijing JINRONG SHIBAO in Chinese
20 Jul 92 pp 1, 2

[Staff special article by Zhong Pengrong (6988 2590 2837): "How Socialism Will Run a Market Economy"]

[Text] *Editor's note: On 11 July an article by comrades Chen Jinyu [7115 651 3768] and Zhong Pengrong in JINGJI RIBAO entitled "Socialism Should Also Run a Market Economy," which was afterward carried in excerpt form on the Press Excerpt Program of the Central People's Broadcasting Station and which was also carried by RENMIN RIBAO and other newspapers, has evoked a very big response in society. Today this newspaper has invited Comrade Zhong Pengrong to express his opinions, with regard to socialism's development of a market economy, at a deeper level and on more realistic policy questions, as well as the question of how to run a socialist market economy, in the expectation of opening a discussion on this question, prompting thought, and changing minds, and of further giving impetus to the emancipation of the mind and to the promotion of the acceleration of the pace of reform and opening up to the outside world.*

On the 11th day of this month, the article by Chen Jinyu and myself published in JINGJI RIBAO entitled "Socialism Should Also Run a Market Economy" explored some questions of universal concern by people with regard to developing a market economy. The present article tries to discuss the views on the development of a market economy on theoretical questions at a deeper level and on more realistic policy questions.

Questions of interests and dissemination of information: the two basic preconditions for development of a market economy

There are two basic preconditions for the establishment of a highly centralized planned economic system: The first precondition is that the producers in a socialist society be selfless. Therefore, the production goal of every producer (including the basic production unit in the enterprise and in the rural areas) is to directly meet the demands of society. There is no need for society to take into account the interests of every producer, and whatever society needs a producer must produce. The second precondition is that society, in a centralized manner, is able at any time to get information on all of society's resources and demands, and thus is able to distribute society's resources in line with society's demands.

However, the practice of several decades has proved that even if the system of public ownership of the means of production is established, the abovementioned two conditions for establishing a highly centralized planned economic system do not exist.

First, every production unit wants to pursue its own interests, and there is none that does not hope that its own labor will not, without going through an exchange process, directly constitute part of society's total labor. The direct objective of their productive activity is not to satisfy society's demands but rather to make money. Making use of value to satisfy society's demands is only the material undertaking produced by them in pursuit of value. Over the past several decades, enterprises have always been criticized for the practice of "going all out when there are big profits, doing little when there are little profits, and doing nothing when there are no profits," but the enterprises still engage in this practice. The critics say that the enterprises lack a socialist consciousness, but actually the critics are divorced from the reality of the enterprises.

Next, because there are tens of thousand kinds of society's demands and because people's demands are fast changing, society's center basically cannot grasp the changes in resources and in demands at every time and occasion in society, and thus cannot distribute society's resources in line with society's demands. For a country as large as China, where both the information media and the communication facilities are underdeveloped, the possibility is even less for a social center to distribute resources in line with the changes in demand of the entire society, gearing the distribution to actual circumstances.

How can the abovementioned two actual circumstances be brought in line? By developing the market economy from the market prices—the prices following the changes in the production prices and in the relationship between the supply and demand of all kinds of products—taking into consideration the interests of every producer, and from the changes in market prices, providing resource information and supply-demand information to the producers and managers, so that society's production better meets society's demands.

Compared with a highly centralized planned economic system, the market economy system has the following characteristics:

First, from a look at the main part of economic policy making, a market economy is a mass economy. In a market economy the main part of policy making is not done by a small number of planning officials, but is done by the great number of enterprise managers on the first line of economic activity and by the great number of workers and peasants. They are both the policymakers of economic activity and the collectors and arrangers of information on society's resources and demands. Thus, many people collect and arrange information and make policy, and it is not the case that a small number of individuals do so. It is the people on the first line of production and economic activity who collect and arrange information and make policy, and it is not the people who are remote from reality who do so. It is people whose own interests are closely interrelated who collect and arrange information and make policy, and it

is not people who have no ties of direct interest in the consequences of economic activity who collect and arrange information and make policy. This kind of policy making is more suited to circumstances.

Second, looking at the way of promoting producers and managers to engage in production and business, a market economy is an economy driven by interests. It does not, by issuing commands, force the producer to produce something or not produce something, force the businessman to engage in a certain kind of business or not engage in a certain kind of business, but it, through adjusting their interests, lets them voluntarily choose the scale and specification of the variety of commodities produced and done business with, etc. The way to adjust interests lies in price fluctuations. This way of promoting interests is for China's existing enterprises—objectively the enterprises that go all out when there are big profits, do little when there are little profits, and do nothing when there are no profits—an effective way.

Third, from a look at the way society's resources are distributed, a market economy is an auction economy. With regard to the limited materials, funds, foreign exchange, labor, land, and other essential production factors, it does not adopt the method of "cutting the cake" in its distribution between the enterprises, and even less does it distribute by the method of "opening the back door," but rather distributes by the auction method. Does the supply of materials not meet the demand? In this kind of distribution, priority in distribution of the limited resources of society is given to enterprises with good economic returns, because only these enterprises dare to come up with high prices. All of the resources for which this kind of distribution is adopted are resources that can obtain the maximum utilization, so that there is truly realized a situation in which "all of the people's talents are used, and all of the materials are utilized."

Productive force criterion and practice criterion: the two deep-level bases for development of a market economy

A question over the past several years on which there has been a very big difference is whether it is better in China to have a little more or a little less component parts in market regulation, and whether China should develop a market economy. This difference, in the final analysis, is a philosophical one.

First, there is the difference between the practice criterion and the book criterion. Comrades who uphold the book criterion judge whether an economic system is right or wrong, acceptable or unacceptable, on the basis of the conclusions of the authors of the Marxist-Leninist classics. The basic way that they analyze problems is, taking the quotations of Marx, Engels, Lenin, Stalin, and Mao as the premises, they draw conclusions from these premises. If their conclusions are said to be good, they are good; if their conclusions are said to be bad, they are bad. There is little concern for how the results of their conclusions would be in practice. Marx, Engels, Lenin,

and Stalin stressed that in a socialist society there must be established a highly centralized planned economy. Thus, we must uphold this system.

In the 1978 discussion on the practice criterion, the "two whatevers" way of thinking was eradicated, and the line of thinking that practice is the sole criterion for testing truth was established. In accordance with this line of thinking, in judging whether a certain system is right or wrong and in deciding whether it is acceptable or unacceptable, one does not look at how a book is written but rather at what its results are in practice.

For more than 40 years China has experienced two kinds of practice: one kind is the practice of a highly centralized planned economic system; the other kinds if the practice of being drawn into the market mechanisms since reform and opening up to the outside world. What did the highly centralized planned economic system bring to the Chinese people? A commodity shortage, a ration ticket supply, and a extended periods of fluctuations to very low levels for people. The main line of reform since 1979 has been, through devolution of power to the peasants and entrepreneurs and through the bringing of market mechanisms into the traditional system, to bring close to two-thirds of the entire economic activity under market regulation. It was precisely the introduction of market mechanisms that put an end to the era of ration book supply in China. Now, commodities are abundant, markets are brisk, and provided one has money in hand it seems that there is nothing that one cannot buy. The Chinese people have already tasted the sweetness of market mechanisms. Obviously, provided we do not uphold the book criterion and the "two whatevers," but rather uphold the practice criterion, we will draw, without the least hesitation, the conclusion that in China market mechanisms should be further introduced to develop a market economy.

As to whether something develops the market economy or not, besides the difference between the practice criterion and the book criterion, there is the difference between the productive forces criterion on the one hand and the nonproductive forces criterion and the production relationships criterion.

The results of practice have answered the question of whether China will develop a market economy. However, because of the difference between the people using the productive forces criterion and the people not using the productive forces criterion, the conclusions they draw are not the same. In the early eighties, everybody admitted the fact that the agricultural production responsibility system promoted a great bumper harvest in agricultural production. But there were two completely different attitudes toward this fact: Some people, who wept bitterly because the idea of "large in size and collective in nature" had been attacked, said that practicing the agricultural production responsibility system was a case of "working hard for several decades and then returning overnight to the situation before liberation," and thus vigorously opposed it. That there were two

opposing attitudes on the same fact is because the former handled this fact with the productive forces criterion and the latter handled this fact with the production relationships criterion. Upholding the productive forces criterion or upholding the production relationships criterion, in the final analysis, is a case of putting productive forces first or putting production relationships first. In accord with the basic tenets of historical materialism, productive forces are primary, and production relationships emerge because of the demand of productive forces and they serve as a counterreaction to productive forces. Putting productive forces first also means putting the interests of the broad masses of people first. The broad masses of people want food, clothing, and housing. What they are more interested in is being able to eat a little better, dress a little better, and live in a little more spacious dwelling. The only way for this to come true is to develop the productive forces. Putting productive forces in a position that is not essential means putting the vital interests of the broad masses of the people in a position that is not essential.

The master designer of reform and opening up to the outside world—Comrade Deng Xiaoping—from first to last has put productive forces first. Recently, in talks at Nanxun, he emphatically pointed out: In the criterion for judging whether something is “capitalist” or “socialist,” we should look mainly at whether it is advantageous for the development of the productive forces of a socialist society, whether it is advantageous for the enhancement of the total national strength of socialism, and whether it is advantageous for the improvement of the people’s living standard. Here, in reality, is reaffirmed the primary norm of productive forces.

Whether one upholds the productive forces criterion or upholds the primary norm of productive forces, one will naturally draw the conclusion that China should also develop a market economy, because the practice of several decades has already proved that whatever is relaxed relaxes more. To invigorate China’s economy as a whole, we should expand the partial relaxation into an overall relaxation, and then put China’s micro-economic activity under the regulation of market mechanisms.

Mold the main part and perfect the regulations: the two great tasks in developing a market economy

There are many tasks to perform in China’s development of a market economy, but there are two main tasks: The first task is to mold the market’s main part, and the second task is to perfect the market’s regulations. To mold the main part we must transform a large number of state-owned and state-run enterprises and collective enterprises into commodity producers and commodity businesses that do business on their own initiative and that are responsible for their own profits and losses. To this end there are three main things that we must do:

The first thing is to further reduce, and even basically do away with, plans of a command nature. With regard to consumer products, besides retaining some food supplies

and their prices fixed by the state for city and town residents, the production, circulation, and prices of the remaining products should be relaxed. The command production plans and command prices for all means of production should be abolished, and for the materials needed for the state’s key construction projects priority in supply can be demanded from the enterprises, but the prices should follow the market. To reduce the repercussions, in abolishing the command plans for the means of production, they can be abolished in several batches, e.g., one or two batches a year. With regard to labor wages, the state will, mainly through the tax lever, the total scale of the enterprises’ wages, and there will be no need to send down command plans. With regard to investment in capital construction, after the government switches the main part of its profitable project investment to enterprises, and switches its fund resources in the main to making direct blending of funds primary, the command plans should also be abolished.

The second thing is to greatly reduce the number of official seals for examination and approval. Now, every time an enterprise does something it must have, at the least, several dozen official seals affixed and, at the most, several hundreds. With this many examinations and approvals, and this many official seals, how can one talk about market mechanisms? If it is said that at the beginning of reform we mainly expanded markets by reducing command plans, then, looking at the situation now, we are making a turn to official seals for markets. Behind the excessively many examinations and approvals, and official seals, there is organizational expansion. To reduce the examinations and approvals, and the official seals, we must first streamline the administrative structure and change the government’s functions.

The third thing is to change the state of affairs in which the enterprise is responsible for its profits but not for its losses, and make the enterprise truly responsible for both its profits and losses. There are three conditions needed for the enterprise to be responsible for its own profits and losses. The first condition is that it take the initiative in its business operations. Only by doing so can the enterprise be responsible for its profits and losses with regard to the consequences of its business operations. The second condition is to standardize distribution between enterprise and government: when the enterprise makes profit, the government does not “flog the fast cows”; and when the enterprise shows a loss, the government does not reduce taxes and make concessions on profits, and even less does it give subsidies. The third condition is that to have the capability to be responsible for losses one must have one’s own assets. Now, in the state-owned enterprises all the assets are owned by the state. If there are profits the enterprise can issue more bonuses; if there are losses then naturally the state will take the responsibility. When there are no funds to repay a debt, only the state’s assets can be taken because the enterprise has no assets to be taken. Of these three conditions, through the two tasks of reducing and even

abolishing command plans and of streamlining the administrative structure and reducing official seals, the enterprise possesses the first condition of being responsible for its own profits and losses. To possess the second condition we must change the contract system to a standard divided flow of taxes and profits, i.e., the state on the one hand is a social manager, and in all taxes collected from the enterprise, no matter what ownership an enterprise is under, the kind of tax and the rate of tax are uniform. In another aspect, as the owner of the state-owned assets, the state, in line with the way it owns the assets, will either take part in the enterprise's sharing out of bonuses (when it holds the assets in the form of stocks) or will collect debt interest from the enterprise (when it holds the assets in the form of bonds). To possess the third condition, we must reform the property rights system, and in state-owned enterprises universally practice the stock system, so that the enterprises have the capability to be responsible for their own losses.

Of the abovementioned three things, if the first two are done well the enterprises will be able to truly take the initiative in their business operations; if the last thing is done well the enterprises will be able to be responsible for their own profits and losses, and also must be responsible for them. With this kind of mutual bargaining and mutual commodity buying and selling by the enterprises, a true market economy can be formed.

Developing a market economy is like organizing a ball game: first, there must be athletes who fight and keep forging ahead and who dare to hit and charge; and second, there must be scientific, clear rules as well as referees who strictly enforce these rules. In developing a market economy, while molding its main part, we must set up and perfect regulations for all kinds of markets. Only in this way will the enterprises on the markets be able to engage in competition on the basis of equality and be able to be lively but not disordered.

Stabilizing the currency and increasing the "rice bowls": the two important conditions for developing a market economy

To make a stable transfer from the dual-track economy to the market economy, we need to create conditions on many sides, among them the two main conditions are: one condition is to have a stable currency environment, and the other is to have a benign employment environment.

A stable currency and a stable popular feeling are a main condition for successfully making the transition to a market economy. Otherwise, if the people are full of anxiety and draw money from banks to rush to buy things, the side issues that crop up unexpectedly will bring many problems. Not to mention the market economy, the stability of society could also become a problem.

To stabilize the currency we must start by stabilizing the amount of deposits and controlling the amount of increments. To stabilize the amount of deposited currency, the following measures can be taken: return to guaranteeing savings deposits; reform the housing system by

making the acceleration of selling public housing and withdrawing currency from circulation the main points; through reducing the scope of the banks' direct blending of funds, and expanding the issuance of stock, the pressure that can be put on banks by the withdrawal of deposits for the purpose of rushing to buy things will be reduced; and further relaxing the two-level financial and asset market, and increasing the circulation amount of financial commodities, so that there are divided flows of the amount of currency on the material commodities market.

In controlling the incremental amount of currency, there are now three main things to check on well: the first is to check on the deficit, and through controlling the deficit prevent an excessive issuance of currency; the second is to check on the Central Bank's credit with regard to the specialized banks, and ensure the total scale of it in line with the regular need for expansion of economic growth on the credit (including discounts) of the specialized banks; and third, check on the direct blending of funds, and prevent the excessive expansion of the direct blending of funds from causing inflation. On this point theoretical circles now have different views. Some people think that the issuance of stocks and bonds has no bearing on the circulation of currency. Actually, permitting certain enterprises to issue stocks valued at 1 million yuan, and the specialized banks' extending 1 million yuan in credit to these enterprises, have a completely identical effect on increasing the currency circulation and on increasing society's total demand. Speaking of this, through expanding the issuance of stock to stabilize the currency deposit amount, this only changes part of the the specialized banks' deposits and loans into stocks, so this part of the funds cannot be duplicate-purchased (after the banks loan this part of the funds to the enterprises for use in buying the means of production, the individual can draw funds from the banks for use in buying consumer goods). But this means that there must be a condition that there is a corresponding contraction in the scale of the specialized banks' credit. By how much the "domain" of the indirect blending of funds by specialized banks contracts, the "domain" of the direct blending of funds expands. Only in this way will the total demand of society caused by the two ways of blending funds not inflate.

Increasing the employment posts is another important condition for the successful growth of a market economy, because developing a market economy means that many organizations must be streamlined and many enterprises must be eliminated through disuse, and in the organizations and enterprises that continue to be retained many staff and workers must be cut. In this way a large number of people will be squeezed out of the existing system. Whether fairly good placements can be obtained by these people relates to the stability of society, and this relates to the destiny of running a market economy.

Of course, we could let all of these people return home and draw unemployment relief money. But this would

not be the fundamental way to solve the problem. The fundamental way is to create employment posts, and let these people become reemployed at new employment posts. The creation of employment posts requires investment, i.e., it requires the expansion of the scale of investment. With this expansion, if consumption is not kept down there will be an expansion of the total demand, and thus the previous important condition for developing a market economy will be destroyed.

In both appropriately expanding the scale of investment and not allowing an expansion in total demand, the main thing is to keep down consumption. First, there is the keeping down of the consumption of the great number of urban and rural residents. The way to do this is not to reduce their income, but is, through expanding the issuance of stock, to encourage private persons to run enterprises, and in other ways increase the appeal of investment, so that the great number of residents consciously increase investment and reduce consumption. Second, hold down the consumption of private entrepreneurs, individual households, and other wealthy households. The way to do this is not mainly increasing taxes, and even less is it "egalitarianism and indiscriminate transfer of resources," but is, politically and legally, eliminating the fear of disturbance in the rear about their expansion of investment, so that they boldly expand investment and boldly run the enterprises on a large scale. Third, hold down consumption by groups. In this respect it must be realized through the construction of honest government; the increase of consumer taxes; the strengthening of public opinion, propaganda, and supervision; and other controls and orders.

Besides holding down consumption by expanding the scale of investment, accelerating development of the tertiary industry, and increasing employment posts, and not causing inflation in total demand, another important way is to expand opening up to the outside world, absorb more foreign investment, and through foreign business investment, absorb the surplus labor power squeezed out in the course of developing a market economy.

Stockholding System Seen Solution to Contradiction

92CE0603A Chongqing GAIGE [REFORM] in Chinese
No 4, 20 Jul 92 pp 27-29

[Article by Sun Xiaoliang (1327 2400 5328): "A Contradiction in Continuing Enterprise Reform"]

[Text] 1) The purpose of our efforts to reform enterprises owned by the whole people is to achieve self-management and self-responsibility for profits and losses in the true sense of these terms. Not only has this become common knowledge in all quarters of society, it has also been included in the "CPC Central Committee's Resolution Regarding Structural Reform."

2) Self-management and responsibility for an enterprise's own profits and losses are a composite entity in mutual control and balance; neither one nor the other

can be missing in this entity. An enterprise that is not allowed self-management cannot possibly be required to assume responsibility for its own profits and losses; an enterprise that has not instituted responsibility for its own profits and losses cannot possibly be expected to truly exercise its self-management right. Reform in both these respects must proceed simultaneously. It would not only be lopsided to merely emphasize self-management without equal emphasis on self-responsibility for profits and losses, but it would even be dangerous. In many respects the reform toward self-responsibility for profits and losses is of an even more fundamental character, is even more important, and also more difficult. This has been true in China for the last three, four years. However, there has never before been anything like this one facet of having enterprises assume full responsibility for own profits and losses, and we may well say that it is a completely unprecedented practice.

3) The reason why assumption of full responsibility for profits and losses by enterprises owned by the whole people is so particularly difficult is that there is here an inherent contradiction. With the continued intensification of enterprise reform, the need arises to transform assumption of full responsibility for profits and losses from a mere slogan into real action; there is a contradiction that is becoming more and more evident.

Basically, assumption of full responsibility for profits and losses is a demand directed at the owner. The term "self-responsibility for profits" refers to gains in "proprietary assets," which are obviously rights that only an owner can have. The term "self-responsibility for losses" refers to the responsibility of having to make up for business losses with assets, which is obviously a responsibility that only the owner can assume. It is therefore a fundamental requirement in both cases that there be ownership rights over assets.

Do the Chinese enterprises owned by the whole people have ownership rights to their assets? Do they have these rights as owners or as managers? These questions cannot be decided on by a the comments of one person or document, but by the state of the entire system. First, when dealing with the separation of the two rights, official documents made it clear that the ownership right belongs to the government (representing the whole people) and the management right belongs to the enterprise. Second, over 90 percent of all enterprises owned by the whole people have adopted the contract system, which clearly prescribes that enterprises in their role of managers have entered into a contract with a representative of the owner, namely with governments at their various levels. Third, whenever an enterprise owned by the whole people takes out a loan, it is clearly prescribed that the assets of the enterprise may not serve as collateral for the reason that the enterprise's assets are not owned by the enterprise. Fourth, in enterprises owned by the whole people, there are workers and managerial staff, but there is no representative of the ownership. The government, representing the ownership, is not inside

but rather outside the enterprises. All these circumstances give a clear answer to the question, the answer being that the various systems currently practiced in China show the fact that enterprises have only the status of managers. Therefore, even if in recent years it is inevitably discussed on every occasion that enterprises assume full responsibility for profits and losses, and even if articles inevitably write about it, this amounts in reality to only a demand and a slogan without reality.

To transform this slogan that the enterprises assume full responsibility for their profits and losses into reality, it is therefore necessary to transform the status of enterprises from that of managers to that of owners. However, since we they have ownership by the whole people, how can these enterprises become owners? This constitutes a contradiction, even a very profound contradiction. Without its resolution, it will be impossible to realize assumption of full responsibility for profits and losses by our enterprises.

4) How can this contradiction be resolved? Adopting the principles and forms of the shareholding system may perhaps be an effective alternative.

Emergence of joint-stock companies has allowed enterprises to gain the status of legal persons, independent of those who contribute the capital. The ownership right in such cases no longer belongs completely to one entity, the proprietor of the enterprise, but is divided in two: in the final analysis the ownership right belongs to those who invest capital (to those who hold shares, i.e. the stockholders), and legal person ownership belongs to the enterprise. The enterprise, as legal person, is responsible for all profits and losses, while the investors of capital are responsible only to the extent of their investments. The reasons for the emergence of this situation is that under the conditions of joint-stock companies, an enterprise has a large number of shareholders, and has the rights of control, use, and disposition of the physical assets, i.e. the rights that the shareholders can no longer exercise. Finally, all these powers and functions of the ownership right are transferred to representatives of the shareholders, namely the board of directors. The board of directors bears the responsibility of "entrustment"; on the one hand they exercise a part of the ownership right by representing the shareholders, and on the other hand, they safeguard the interests of the shareholders, without consideration for individual interests or for reason of any other criteria of action.

It is definitely possible for us to adopt these principles in order to resolve the contradiction between ownership by the whole people in our enterprises and their assumption of full responsibility for profits and losses. Since ultimate ownership rests with the whole people, they may still be represented by the government, while legal person ownership belongs to the enterprise. By enacting enterprise responsibility for profits and losses on this basis, the government, owning all or part of the shares, will have a responsibility limited to its investment in the enterprise. In this way, we will preserve the system of ownership by

the whole people, while also enabling the enterprise to have responsibility for its profits and losses.

There are now many who propose introduction of the shareholding system, but their points of departure differ. Most see its purpose in the need for pooling resources. The shareholding system has indeed many functions, and pooling resources is one of its important functions. However, why I suggest the shareholding system is to resolve the contradiction of having enterprises owned by the whole people, yet assume responsibility for profits and losses, i.e. to achieve the objective of enterprise reform.

5) To have enterprises assume full responsibility for profits and losses requires reorganizing most of enterprises owned by the whole people into joint-stock companies. A few of them will operate under the "public ownership system" as the main component and will also be "companies limited by shares" that issue shares to the general public. Most of them will probably be "companies with limited responsibility," holding shares of public-owned legal persons. Shareholders of this type of joint-stock companies are not private persons or privately-owned enterprises, but are instead various kinds of legal persons of the public ownership system, such as enterprises of the whole people, or collective enterprises, controlling companies managing national assets, holding companies of enterprise groups, and also various kinds of social insurance fund and investment funds of private investors. There may also be a certain number of companies owned by the whole people that are organized as Chinese-foreign joint venture companies with limited liability.

6) When compared with enterprises owned by the whole people, these three types of joint-stock companies display the following main features:

First, their internal organization is comprised of not only workers and managerial staff, but also representatives of the ownership, thereby creating a perfect enterprise pattern, laying the foundation for the implementation of a mechanism of mutual control and balance between the three parties within the enterprises, and also gaining for the enterprises the "status" of owners, and, furthermore, laying the foundation for the implementation of responsibility for one's own profits and losses.

Second, they have changed an enterprise owned by the whole people by subordinating it to a representative of the ownership, by having every joint-stock company have a certain number of shareholders, and by having their appointed representatives constitute a board of directors. This makes it impossible for a government at any level and for any department to interfere again—as they do in enterprises owned by the whole people—in the production and business operations of the joint-stock companies. This also achieves the separation of responsibilities between government administration and enterprise management, and as a consequence it also tears

down the barriers between higher and lower levels, and between different departments and regions.

Third, the government, as a shareholder of the joint-stock company, will bear responsibility only to the extent of its investment, and will no longer bear unlimited liability, as in the case of enterprises owned by the whole people. As a stockholder, the government bears a limited responsibility and does not act as it does in the case of enterprises owned by the whole people, in which they bear unlimited liability. Under the premise that the government bears limited responsibility, enterprises will then be allowed to go bankrupt, and only then can survival of the fittest be possible.

7) Some fear that turning enterprises owned by the whole people into joint-stock companies in which public-owned legal persons are stockholders might result only in a change in form but not in substance, i.e. without substantial change in the system and in mechanisms. A mere look at the actual operational processes in our enterprises after they have incurred losses will easily provide an answer to this question:

An optical instruments plant in a certain municipality had originally been an enterprise owned by the whole people. When it began to incur losses, it first reported its losses to the municipal government and demanded a solution to its problems. This procedure was quite rational and legal; it was the way that absolutely had to be taken because the government was the owner of the enterprise. If the enterprise did not bring its problems to the owner, to whom else should its losses be reported? If not the owner, who else was responsible for a solution? This was all the more true because the enterprise's past profits had been turned over to the government, and it was the government that represented its ownership. The government, quite naturally, officially concerned itself with the matter, and its action unfailingly consisted in deferring repayment of bank loans, tax reductions and exemptions, subsidies for goods returned to warehouses for storage, and many other such measures. Moreover, in the case of repeated losses, this was done year after year according to law, an action that was the start of "eating from the big pot." There have been some changes in recent years in that staff and workers were denied bonuses in unprofitable enterprises, in some cases, salaries and wages were reduced, but this was actually a system of dependency on profits or losses, not a system of full enterprise responsibility for all profits and losses.

Later, this instrument plant imported foreign capital and became a Chinese-foreign joint venture and limited-liability company. If further losses are incurred and the government approached for a solution, the government should not officially concern itself, and could not concern itself with the case because the enterprise was owned by two parties, a Chinese and a foreign party. If the government on the Chinese side were to again adopt such measures as deferring repayment of bank loans, tax reductions and exemptions, and even subsidies, wouldn't that be unfair in light of the responsibility of

the foreign shareholders and wouldn't that allow foreign shareholders to gain an unfair advantage over Chinese shareholders! What then should be done? The board of directors appointed by the shareholders of both parties should study the problem and provide a solution, either by taking out a loan against the security of its assets, or by disposing of some of its stocks and admitting new shareholders, or by declaring bankruptcy. Even if bankruptcy might entail losses for the Chinese shareholders, their liability would only be limited to the amount of their investments and would not be an unlimited liability. Furthermore, since the board of directors is a component of the enterprise, the way the situation is handled would distinguish it more as an enterprise assuming full responsibility for its own profits and losses.

8) Others fear that instituting a shareholding system will result in privatization. Actually, instituting a public ownership system or private ownership system is completely a matter of policy, without relevance to the instituting of a shareholding system. The shareholding system is a kind of organizational system applied to enterprise property; it may be used in a private-ownership system and also in a public-ownership system. Our policy is clear and definite in its objective of preserving the public-ownership system as the main component of the economy. The shareholding system that we propose seeks to institute therefore a shareholding system in which mainly public-owned legal persons are the shareholders. It may also be possible for some enterprises to issue shares to the general public, putting private capital to use. However, issues that can be completely controlled through the state's political policy include which enterprises may be allowed to do so, and which enterprises may not be allowed to do so, what proportion of the total capital may be private capital, etc.

It has to be pointed out that there are truly some people who scheme to use the stockholding system to carry out privatization. Their error is in their "reality" and not in the "name." What we must resolutely oppose is "carrying out privatization" and not deny the stockholding system because of this.

PROVINCIAL

Greater Economic Sophistication Urged

92CE0665B Shanghai JIEFANG RIBAO in Chinese
27 Jul 92 p 5

[Article by Xu Wenlong (2776 2429 7893), Bao Xin (7637 2450), and Yan Jialin (7051 0502 2651): "Boldly Institute a Market Economy To Accelerate Economic Development"]

[Excerpt] [passage omitted] Effect on Shanghai and New Actions That Must Be Taken

The high speed development of the economy of the whole country, particularly the high-speed development of neighboring provinces, is an opportunity and an impetus as well as a challenge and a spur for Shanghai. By opportunity and impetus is meant that the emphasis of investment on basic facilities, energy and transportation, and the building of housing during the second round of growth helps Shanghai play a "turnkey" role as a key city. By challenge and spur is meant that the shortages of raw and processed materials, energy, and transportation, the trend toward a rise in prices, plus the across-the-board relaxation of policy restrictions, "exports through multiple channels," and the diverse ways in which foreign capital is used" narrow somewhat the gap that different policies toward Shanghai and the new Pudong District create.

Thus, various new actions are urgently required as follows:

First is changed ideas and ways of thinking, constantly overcoming "leftist" influence. The strategic significance of adjusting speed of development to the international growth rate to accelerate expansion of the material foundation for socialism is of far-reaching importance; therefore, whatever can be done should be done to speed it up a little. A market economy must be boldly instituted as an operating mechanism so that enterprises are directly informed about consumption through the market, and will thus be able to make full use of the market mechanism and market prices to stimulate and regulate production. In handling the correlation between consumption and production, the former trend of "emphasizing production while slighting consumption" must be corrected. Consumption must be used adroitly to guide production, and a new stimulus mechanism must be established in which a close relationship exists between the labor and the enjoyments of staff members and workers. In this way, expansion of demand rather than curtailment of consumption can be used to switch on the market so that the economy moves ahead at the fastest speed.

Second is the earliest possible establishment and development of a market system. Shanghai's high-speed development during the 1990's does not depend primarily on preferential policies but on the enormous vitality of the market economy that perfection of the market system engenders. Financial, materials, labor, science and technology, and human resources markets must be established to provide the key elements of production, and consumer goods markets and real estate markets must also be established. Both spot trading markets and futures markets are needed. An overwhelming majority of market prices must be free from control to track the market, prices thereby becoming a "barometer" for gauging surpluses and shortages of resources and the relationship between supply and demand. Shanghai and Pudong must become the domestic and foreign junction for linking the "two kinds of capital, the two kinds of

resources, and the two markets," thereby spurring the economic development of all provinces and cities in the Chang Jiang Basin.

Third is energetic development of tertiary industries to make fullest use of the diverse functions of key cities. The contribution of Shanghai to the second round of high speed economic development is not just to continue to provide the whole country with high technology, precision, sophisticated, and new products, but more importantly it is to provide various premium services. Therefore, vigorous efforts must be made to develop tertiary industries including finance and insurance, business and trade, real estate, tourism, information, and consulting. A million surplus staff members and workers in "primary production," and "secondary production" must be organized for a transfer into "tertiary production." Policy restrictions must be relaxed and active support provided for the adoption of a policy in which individuals, collectives, and the state all rise together, a good job being done in providing services for the Chang Jiang Delta, the Chang Jiang Basin, and the entire country. At the same time, this work must help develop the economy, make Shanghai prosper, and bring about a thriving situation in which "all commerce is centered in one place, and customers come from near and far."

Fourth is expansion of the area of operation opened to the outside world to accelerate the speed of development. We must continue to accelerate the leasing of parcels of land and the application of foreign capital to the transformation of old areas. We can also use business and leasing to induce renowned international corporations to come to Shanghai to undertake the construction of municipal government basic facilities, public utilities, and communications and transportation for Shanghai and the new Pudong area. Examples include the Pudong new zones water supply, electricity supply, gas supply, heating supply, handling of garbage from all over the city, construction of a second subway, a new airfield, and new amusement centers, signing cooperation or leasing agreements on the basis of the amount of investment and the length of the capital recovery period, all assets reverting to the Shanghai municipal government upon expiration of the contracts.

Fifth is the earliest formation of a full service, multi-functional, open national financial center. Development of a commodity economy, and the exchange of commodities is just the primary school stage; and the establishment of a market system is just the middle school stage. It is establishment of a highly developed financial system and securities market that is the college stage. Shanghai must accelerate development of securities markets now to make fullest use of Shanghai's stock share system pilot projects and favorable conditions for the marketing of stocks. It must expand the volume of securities trading and the kinds of securities marketed. It must widely attract to Shanghai the trading of stocks and debentures from all over the country, more than 70 percent of all securities trading volume being conducted in Shanghai. It must also open share accounts with residents all over

the country. Securities companies must locate business places and set up agencies all over the country, and they must enhance contacts with the international securities business through the issuance of B-shares in China and securities abroad. In addition, they must establish a Pudong Development Bank to take in capital from all over for the joint development of Pudong. The foregoing kinds of operations can increase local fiscal revenues and also solve needs for capital for developing Pudong and for the vigorous growth of Shanghai.

Large Increase in Business Concerns

92CE0665C Shanghai JIEFANG RIBAO in Chinese
31 Jul 92 p 1

[Article by Xiang Mingsheng (0686 2494 3932) and Chen Yonghu (7115 3941 3337): "Shanghai Business Enterprises Number More Than 130,000. Enormous Increase in Tertiary Industries; Make-up Diverse"]

[Text] Statistics from the Municipal Industrial and Trade Administration show that 12,364 new enterprises opened for business during the first half of 1992, an all-time high for the same period in previous years. This upsurge in the operation of business enterprises suggests that Shanghai's vigorous economic development has entered a new stage of development. Shanghai's collective enterprises under ownership of the whole people and jointly operated enterprises total 131,961 in number, up 6.9 percent since the end of 1991. Privately operated enterprises number 2,700; and the three kinds of partially or wholly foreign-owned enterprises number 1,725 bringing the grand total to 136,376.

Development of Shanghai's enterprises shows three characteristics as follows: 1) An enormous increase in tertiary enterprises, the number rising from 79,514 at the end of 1991 to 85,484 now, and the number of conventional businesses and food and beverage businesses increasing to 67,233 in a 76.2 percent rise. New real estate businesses have increased rapidly, and financial and insurance businesses also number 1,233. Scientific research and complete technical services enterprises number 1,574. Employed personnel also number 9,700,268, up 14.2 percent. 2) The number of companies has risen in a straight line, 870 companies being added during the first half of the year. 3) Business enterprises have become more diversified in form, fifty registering as limited liability corporations, and 68 registering as group or central enterprises. Other jointly-run enterprises number 8,516.

Shanghai Prepares To Set Up Coal Exchange

92CE0665A Shanghai JIEFANG RIBAO in Chinese
2 Aug 92 p 1

[Article: "National Departments and Commissions Concerned Decide in Conjunction With Municipal Government To Establish the Shanghai Coal Exchange Control Commission To Speed Up Preparations for Founding of Coal Exchange"]

[Text] Yesterday, the national departments and commissions concerned, and the municipal people's government decided to establish the Shanghai Coal Exchange Control Commission to speed up preparations for founding of a coal exchange, which is to go into operation within the year.

Between 31 July and 1 August, The Chinese State-Controlled Coal Mines Corporation and the Shanghai Municipal government jointly convened the Shanghai coal exchange forum. Following full consideration, the meeting unanimously approved the founding of a coal exchange in Shanghai, and it decided that the state-controlled Coal Mines Corporation, the Ministry of Materials, the Ministry of Railways, the Ministry of Communications, the State Industrial and Commercial Bureau, the Ministry of Materials, and the Shanghai Municipal Government would sit on the Coal Exchange Control Commission, and that State-Controlled Coal Mines Corporation, Ministry of Materials, and Shanghai Municipal government leaders would serve as chairman and deputy chairmen of the commission.

Deputy mayor Gu Chuanshun [7357 0278 7311] expressed gratitude to the national ministries and commission leaders on behalf of the municipal government. He said that in building a coal exchange in Shanghai the central government provides vigorous support for the city that will give powerful impetus to Shanghai's reform and opening to the outside world, and to economic construction. Shanghai is determined to work actively in providing service; it will make concerted efforts to do a good job of building this large exchange market. State Planning Commission Vice Minister Ye Qing [0673 7230], Vice Minister of Economic Relations and Foreign Trade Zhao Weichen [6392 4850 5256], Chinese State-Controlled Coal Mines Chairman Hu Jiaguo [5170 1367 0948] and Deputy Chairman Pu Hongjiu [3450 3163 0046], Vice Minister of Railways Shi Shiyu [4258 1585 3768], Deputy Minister of Communications Lin Zuyi [2651 4371 0044], and other comrades from State Council ministries and commissions attended the forum.

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FINANCE, BANKING

Study Support for Key Eighth Five-Year Plan Projects

92CE0640A Beijing GUANLI SHIJIE
[MANAGEMENT WORLD] in Chinese No 3,
24 May 92 pp 66-69

[Article by Xie Ping (6200 1627) and Xia Bin (1115 2430), Chinese People's Bank Head Office: "Study on the Coordination of Bank and Government Financial Support for Key Construction During the Eighth Five-Year Plan"]

[Text] In accordance with the Eighth Five-Year Plan, 840 billion yuan is to be invested in capital construction

and 550 billion yuan is to be invested in technological transformation of units under ownership of the whole people from 1991 through 1995. This investment will lay a foundation for the country's long-term economic growth. Facts show that during the present period of relative decline in labor costs and prices, construction should be done earlier rather than later. Even so, the actual investment needed to complete the work will be greater than the 840 billion yuan for capital construction calculated at current prices. The shortfall includes 100 billion yuan resulting from an increase in prices, another 100 billion yuan needed for start up funds and working capital, and an investment of approximately 50 billion yuan for incidentals. Actual requirements always exceed the amount of funds provided, but even more so during the Eighth Five-Year Plan. Therefore, early consideration and early planning is needed.

Overall, four sources of funds exists: central government disbursements, funds that local governments and enterprises themselves raise, bank loans, and securities. In reality, however, in view of the many problems that exist including the large number of channels and methods that must be used to raise funds, the need to lower fund raising costs, scientific planning of the period when funds must be repaid and interest rates, making financing more efficient, planning financing in an overall way, and general overall balance, obtaining funds is a complex piece of systems engineering requiring coordination between the banks and the national treasury.

1. Analysis of Premises

1. Limiting Conditions. Central government funding of the above investment during the Eighth Five-Year Plan calls for the disbursement of 35 billion yuan annually. The government is unable to increase funding by an additional 2 billion yuan each year. This is because central government subsidies of 100 billion yuan for price increases and enterprise losses already amount to one-third of budget; internal and external debt requires a payment of 187 billion yuan in capital and interest; and expenditures for science and technology, education, administration, and national defense also increase proportionally. This means that in the foregoing investment plan, a total of only 208 billion yuan comes out of national budget funds. Nongovernmental fund raising has become the basic pattern for investment during the Eighth Five-Year Plan, mostly because of the need to avoid provoking currency inflation. This dictates the need for policy coordination between the banks and the central government treasury.

2. Funds potential. On the basis of actual performance during the Seventh Five-Year Plan, China has a very great funds raising potential. During the Seventh Five-Year Plan, investment in capital construction and the technological transformation of units under ownership of the whole people totaled 776 billion yuan, but 1.1067 trillion yuan was actually raised. This included bank credit of 81.5 billion yuan more than was called for in

plan, or 25 percent; 200 billion yuan more than was called for in plan from local government and business enterprise subscriptions, or 60 percent; and 23 billion yuan more foreign capital than was called for in plan, or 8 percent. It is to be expected that this inherent potential for raising funds will likewise exist during the Eighth Five-Year Plan.

First is the swift increase in individual financing of assets. During the Seventh Five-Year Plan, individual financing of assets in China increased approximately eight fold to total approximately 934 billion yuan as of the end of 1990. This included 703 billion yuan from savings account, 130 billion from cash on hand, 93 billion yuan from various kinds of securities, and 8 billion from individual insurance. Extrapolations based on the Seventh Five-Year Plan rate of increase in individual financing of assets and cash income, national income, and percentage of increase in GNP show that if GNP increases 40 percent during the Eighth Five-Year Plan, the immediate balance of individual financing of assets may reached 1.75 trillion yuan (including 1.3 trillion from savings, 200 billion yuan from securities, and 250 billion yuan from cash on hand), a net increase of 816 billion yuan.

Second, the extrabudgetary funds of local governments, business enterprises, and units in charge became the main source of funds for incidental expenses in investment in units under ownership of the whole people during the Seventh Five-Year Plan, totaling 200 billion yuan. This was approximately one-fourth of the total amount of extrabudgetary income. During the Seventh Five-Year Plan, extrabudgetary income amounted to approximately 80 percent of budgeted national income. Extrapolations from this figure show extrabudgetary income during the Eighth Five-Year Plan totaling approximately 1.4 trillion of which approximately 350 billion yuan is available for investment in fixed assets.

Third is a rise in returns from working capital. During the Seventh Five-Year Plan, the various indicators for judging returns on working capital (amount used per 100 yuan of output value, amount used per 100 yuan of sales, number of days required for funds to circulate in industrial enterprises, and the interest rate per 100 yuan of working capital) all gradually fell, taking up a large amount of working capital. Rough calculations show that if the foregoing indicators for industrial and commercial enterprises reach the 1987 level rather than the 1990 level during the Eighth Five-Year Plan, a saving of approximately 190 billion yuan can be realized. This will greatly relieve pressures on the banks, freeing more funds for investment in fixed assets.

The foregoing analysis shows that by comparison with other developing countries, China has a large amount of funds available from internal savings. Relatively speaking, availability of capital in China is superior. Nevertheless, funds potential must be tapped to the full,

and savings effectively converted into investment. This requires concerted cooperation between the government and the banks.

3. Cost of Raising Capital. During the last three years of the Seventh Five-Year Plan, a marked change occurred in the principal ownership of capital in China. The percentage of capital owned by individuals and business enterprises rose tremendously, while the percentage of state-owned capital fell. This resulted from a change in the primary national income distribution pattern in which no change is in prospect during the Eighth Five-Year Plan. Therefore, in the current circumstances of a decline in the percentage of gratis national government appropriations, and a rise in the percentage of capital raised through subscriptions, constraints resulting from costs in raising capital are becoming greater and greater. Since 1989, the interest that banks pay individuals and the interest that business enterprises pay banks each year amounted to approximately 8 percent of national income each year.

Because of the rise in the percentage of credit used for investment in capital construction since 1988, most capital construction enterprises feel the interest burden is hard to bear; however, unless banks have sufficient interest income, they cannot pay interest on individual savings accounts. This conflict will become more intense during the Eighth Five-Year Plan. Therefore, both the national government and banks must work together in calculating the total cost of raising capital in China. Actually, since the state monopolizes the finance business and completely controls securities markets in China, it can reduce the cost of raising capital to the maximum extent. The upward creep in the cost (interest rates) of raising capital throughout society during the two last years of the Seventh Five-Year Plan resulted both from currency inflation and the failure of government and bank coordination.

Not only interest costs, but lowering fund raising management costs also require bank and government coordination. How to fashion an effective system for government raising of finance capital, national bank raising of capital, nonbanking financial organ raising of capital, and raising of capital through enterprise securities that makes institutions and the number of personnel in them as scientific as possible, how to get monopoly finance interest to revert to the state, and how to improve management of noninterest costs in the fund raising process are matters that must be worked out through specific policies that are coordinated between banks and the government. Of even greater importance is how these problems can be solved during the Eighth Five-Year Plan to lay a fine foundation for prescribing China's future fund raising system.

2. Methods of Raising Capital

The general line of thinking about methods for raising capital is as follows:

First is a change from government supplied finance capital to finance capital for which other than government takes responsibility. During the Seventh Five-Year Plan, investment in units under ownership of the whole people (for capital construction as well as technological transformation, and the same applies hereinafter) increased 20.5 percent each year. Sources of funds came from a 3.4 percent annual increase in state investment, a 28 percent annual increase in domestic loans, a 52 percent annual increase in foreign capital, and a 22 percent increase per year in the amount of self-subscribed investment. Finance capital was obtained mostly from the transformation of savings into investment. This pattern will not change during the Eighth Five-Year Plan; instead it will intensify.

Second, in providing finance capital, particularly in obtaining funds for investment in fixed assets, the percentage of indirect financing (credit) will decline moderately, while the percentage of direct financing (securities) will rise relatively. This situation became marked after 1988. Securities in China consisted mostly of treasury bonds, but the percentage of investment securities (national key construction bonds, and business enterprise stocks and bonds) increased from 20 percent in 1986 to 42 percent in 1990. At the same time, the amount of investment securities issued as a percentage of total bank credit for fixed assets during the same year rose from 28 percent in 1987 to 63 percent in 1990.

Third, in providing finance capital indirectly, a certain amount of separation will occur in the current mixture of national bank financing for policy reasons and for general commercial purposes. In order to support key national construction, a specialized national development investment bank will have to be established (or the Construction Bank converted to one).

Fourth, the task of indirectly financing investment in state plan will no longer be borne by national banks but by national banks and other financial institutions in common.

Fifth is the established of a nationally unified securities market made up primarily of national bonds and various kinds of investment bonds. The securities market will include both issuing markets and transfer markets.

Specific ideas about ways of raising capital based on this general line of thought are as follows:

1. Increase financial trust investment corporation's responsibility for financing of investment within state plan. This should be done because during the Seventh Five-Year Plan the savings of these kind of corporations increased, large amounts of extrabudgetary funds flowing into trust corporations. The specific methods to be used are as follows:

First is an increase in the savings reserve rates of these corporations, or collection of a certain ratio of special construction savings to be held in a special government financial account.

Second is an increase in the amount of national construction bonds that such corporations purchase, but permitting the corporations to use the bonds in applying for discounted loans from the central bank. The advantages of this method are: corporations will have to retain some bonds as reserve assets, and the negative difference in interest between the bond interest rate and discounted loans will reduce the state's burden.

Third, inasmuch as such corporations can currently obtain interest from monopoly financing, in cases where regulation of these corporation has gradually been standardized, a special financing tax payable directly to the central government may be levied on them. This would reduce both the flow into local government treasuries of these profits in the form of income taxes and the corporations' retention of profits for distribution.

2. A general holding down of interest rates on savings and loans. This will bring bank interest rates on loans for the purchase of fixed assets for projects within plan in line with interest rates on other loans during the same period. This can make the specialized banks more interested in providing loans for projects within plan inasmuch as the creditworthiness of projects within plan is somewhat higher than for projects in general. In cases where a project simply cannot pay the normal interest rate, policy should be changed for the payment of a differential interest rate whereby interest is discounted as completion of the project progresses. In this way, credit plans could provide for command style plans for a certain percentage of banks' key construction loans. Under today's differential interest rates policy, the more banks lend the greater their losses, and ultimately the interest differential requires the central bank to provide relief with haggling back and forth that makes banks disinterested in lending. The foregoing measures could stimulate the specialized banks themselves to enforce a policy of "soft-pedaling loans for ordinary projects while assuring loans for key projects" making the mechanism work extremely well.

3. Increasing the amount of construction bonds purchased by insurance companies, local government centrally controlled old-age pension organs, and social security organs, the bonds serving as reserve assets. With the establishment of a social security system during the Eighth Five-Year Plan, such funds will increase rapidly, and the portion of these funds from enterprises and individuals can be translated into investment. Were a secondary transfer market to exist, the potential in this regard would be tremendous.

4. For some exceptionally large national projects (such as the Three Gorges power station), national stock corporations could be set up to permit other state-owned enterprises, financial institutions, collective enterprises, social groups, and individuals to subscribe to shares, control over shares exercised by the State Administration of State Property. Such shares could be marketed in designated exchanges (such as Shanghai and Shenzhen). Technically, such a method is fairly complex, but it

could be simplified by permitting the marketing of individual shares but not public shares. In short, the technical problems can be readily solved.

5. Construction bonds for some key national projects could be marketed in the Shanghai and Shenzhen exchanges, on the one hand, while securities company and trust company organized joint trust funds in every jurisdiction could take in small amounts from individuals for investment in such bonds, thereby invigorating the country's securities market.

In recent years there has been lingering apprehension that the development of securities markets might cause a decline in savings, but this would only amount to "savings moving elsewhere." There is no real evidence for such fears. Diverse financial assets can greatly tap individual potential to provide finance capital. Furthermore, since the securities and credit mechanisms are different, and affect business enterprises in different ways, securities markets can increase the efficiency of finance capital.

6. Abolition of the specialized investment corporations under jurisdiction of the Planning Committee, placing their functions under the Construction Bank. These corporations have no branches or sub-branches at the present time (and if they did have, they would duplicate those of the Construction Bank thereby damaging the wealth of working people), nor can they directly manage project progress. Every year they only commission banks to issue high interest bonds, and also commission banks to make loans. When government appropriations or credit changes go through these corporations, this adds one additional link. Abolition of these corporations could reduce the cost of raising money, particularly non-interest costs.

3. Problems in Coordination Between Government Financial Institutions and the Banks

1. Coordination of interest rate reform. Once the method for figuring interest on individual time deposits in China is changed, national bonds will be more attractive than savings accounts in terms of fluidity and returns, and the special character of business enterprise bonds will no longer exist. Thus, the former interest rate structure for social financial assets in which interest was less on savings accounts than on national bonds, less on national bonds than on business enterprise bonds, and less on business enterprise bonds than on stock shares and from the pooling of funds will change.

First, savings and loan interest rate readjustments will be much simpler (because of the cancellation of the periodic figuring of interest); thus the number of annual interest rate readjustments will increase making adjustments upward and downward more lively. In view of this, the system whereby treasury bond interest rates trail pre-issuance interest rates on savings by several percentage points will no longer apply. In 1990, as soon as the interest rate on treasury bonds (14 percent) was announced, banks lowered interest rates twice, resulting

in a strange situation in which the interest rate on treasury bonds was far higher than the interest rate on loans during the same period. Consequently, corporations benefitted greatly from arbitrage dealings causing serious losses to the state. During the Eighth Five-Year Plan, the country's basic interest rate must be changed from the interest rate on one year time deposits now in use to the interest rate on treasury bonds.

Second is the enterprise bond interest rate problem. During the Eighth Five-Year Plan, the country's business enterprises will issue a very large quantity of bonds. According to current regulations, income tax must be paid on enterprise bond interest; thus, the interest rate on business enterprise bonds is 40 percent higher than the interest rate on savings accounts for the same period. In reality, however, income taxes are hard to collect. Neither business concerns nor securities corporations want to act as agents for their collection, and individuals are even less willing to take the initiative in making payment. As a result, an interest rate on enterprise bonds that is higher than the interest rate on loans works against the lowering of the cost of raising capital. Therefore, enterprise bonds should be exempted from the collection of an income tax and the interest rate on such bonds should be lowered, the interest rate on savings accounts for the same period being maintained as they are or slightly higher.

Third, under the prevailing fiscal and banking system in China, two banks can cooperate to hold down the overall interest rate throughout society. Figured in terms of a net increase of 740 billion yuan on individual interest-bearing financial assets during the Eighth Five-Year Plan, holding down the interest rate by 1 percentage point can yield approximately 7.4 billion yuan in savings on the payment of interest, and reduce interest payments by 37 billion yuan in a five year period.

Fourth, after cancelling preferential differential interest rates, the special fund for policy discounts on property jointly built by the treasury and banks should authorize the Construction Bank to provide a discount as the investment project moves ahead.

2. Coordination of securities market policies. Securities markets involve the banking, fiscal revenue, industrial and commercial, auditing, and system reform sectors. Of greatest importance in securities issuance and trading, and in enterprise examination and verification is effective bank and government management. The current situation in which government speaks with many conflicting voices hurts rapid development of the country's securities markets. This also means no standards and fragmentation that are bound to hurt plans for raising capital during the Eighth Five-Year Plan. Government and banks should cooperate with all possible speed in the formulation of unified, detailed plans every part of which advance the healthy development of securities markets.

3. Coordination of working capital policies. The working capital quota for all existing enterprises (which the

treasury formerly disbursed) should henceforth be supplied through bank loans, which serve as a loan fund that the state disburses to banks; and newly built enterprises should depend entirely on enterprise bonds or bank loans for their working capital, all state-owned enterprises thus being treated equally without discrimination between old and new. Use of treasury loans as a source of working capital should be cancelled. This would also straighten out management of state-owned assets in this regard.

4. Noninterest on government savings should also be changed, channels opened up for interest-bearing savings and loans on government funds among local treasuries, the national treasury, the central bank, specialized banks, and other financial institutions. Currently, large amounts of government savings funds drain away. The tendency for them to be converted into interest-bearing savings, or commission and trust savings cannot be reversed. Administrative measures cannot plug the holes.

5. Policy for coordinating pertinent fiscal credit policies. The treasury and banks must acknowledge the objective role that government credit plays, making government credit a part of standard financial management.

6. Specialized banks are becoming less efficient in the raising of capital, bad debts have increased, costs have risen; and a bloating of personnel has occurred. During the Eighth Five-Year Plan, both the central bank and the Ministry of Finance must set up an enterprise style management system in the specialized banks; otherwise, the specialized banks will become more indifferent causing a huge waste of capital. The following is required in this connection: First central bank credit plans must be combined with the tax and interest payment plans that the Ministry of Finance formulates for the specialized banks. They cannot remain unrelated. Second is a clear-cut quantitative dividing line between the tasks that banks perform for policy reasons and the tasks they perform for operating reasons so as to prevent specialized banks from using policy reasons as a pretext for increasing costs. Proper emphasis must be given to the need for specialized banks to make a profit in order to arouse their zeal and increase the overall rate of return from the use of capital.

FOREIGN TRADE, INVESTMENT

Vice Premier Zou Jiahua Briefs NPC on Foreign Trade

OW0109130792 Beijing XINHUA in English
1254 GMT 1 Sep 92

[Text] Beijing, September 1 (XINHUA)—China's total exports exceeded 39.87 billion U.S. dollars between January and July this year, up 19.2 percent over last year's same period, while imports surpassed 23.59 billion U.S. dollars, a 33.8 percent rise.

The figures were announced by Zou Jiahua, vice-premier and minister of the State Planning Commission, during the on-going session of the Standing Committee of the Seventh National People's Congress.

The increases in exports were most evident in coastal and border provinces and regions, including Guangdong, Fujian, Jiangsu, Guangxi, Heilongjiang and Yunnan Provinces and the Xinjiang Uygur Autonomous Region.

Zou said China has steadily increased exports to traditional international markets, and has cultivated new markets since early this year.

"Along with the rise of domestic demand, and the increase of foreign exchange earnings, the import of raw materials, turn-key facilities and technology has also increased drastically," according to the vice-premier.

Zou not only pointed out that foreign investment has reached new heights this year during China's further opening effort, but added that the country also enjoyed political stability, promising economic development, and an improved investment environment.

The Ministry of Foreign Economic Relations and Trade recently released statistics showing that total foreign investment rose by 43.3 percent between January and July, while direct foreign investment had increased by 102 percent.

The vice-premier said that China has established a new pattern of comprehensive opening to the outside.

"This opportunity should be seized upon and flexible trade methods currently in use throughout the world should be adopted, while at the same time new markets, especially foreign markets beneficial to the Chinese economy, must be tapped," said Zou.

Zou requested that concerned departments organize imports to meet the requirements necessary for the development of the domestic economy and structural adjustment, and that they maintain an international balance of income and expenditures.

Zou concluded by saying that "foreign investment should be geared towards building projects related to energy and transportation, as well as to the development of new and high technology."

Reforming Foreign Exchange Retention System

92CE0582A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 6, 30 Jun 92 pp 25-27

[Article by Tao Shigui (7118 1102 6311): "On Reforming Current Foreign Exchange Retention System"]

[Text] As China's open policy improves steadily and foreign trade reform is further intensified, the existing foreign exchange retention system no longer meets the

need of the development of international trade. There is an urgent need to replace quota retention with spot exchange retention. Many conditions in the current situation favor the reform of the foreign exchange retention system.

1. Conditions Favoring the Reform of the Foreign Exchange Retention System

1) The new foreign trade system is working well and has achieved some success.

Since 1991, China has been following a new foreign trade system. State subsidies for export enterprises were abolished to make them responsible for their own profits and losses. This is the first step toward putting foreign trade under a unified policy and on a level playing field. Foreign trade enterprises should be given decision-making authority in their operations and held accountable for their own profits and losses. Trade and industry should be integrated. The agent system should be popularized. A united front should be presented to the outside world. Now that the new foreign trade system has been in operation for more than a year, there has been a broad increase in the capacity for self-development and self-restraint among foreign trade export enterprises. Substantial gains also have been made in the quality of export commodities, the contract compliance rate, and export-generated profits. Export enterprises are now better able to take care of their own profits and losses. The rectification of foreign trade enterprises is beginning to pay off. The Ministry of Foreign Economic Relations and Trade has revoked the foreign trade authority of 1,083 enterprises which previously accounted for 36.6 percent of local foreign trade enterprises. The export-generated foreign exchange cancellation-after-verification system, introduced in 1991, has significantly boosted the export earnings rate. Imports and exports have risen by a wide margin. According to customs statistics, China's imports and exports totaled \$135.7 billion in 1991, an increase of 17.5 percent over 1990, including \$71.91 billion in exports, up 15.8 percent, and \$63.79 billion in imports, up 19.5 percent. The nation's foreign exchange balance continued to increase steadily; as of late September 1991, China's foreign exchange reserves stood at \$39.96 billion, including \$19.9 billion in foreign exchange balance, \$8.81 billion more than the preceding year. China's debt remained on a reasonable scale, with all indicators under the alarm levels. The overall foreign trade environment and economic situation have improved considerably. The foreign trade system has begun to operate in a healthy way. This shows that a sound economic base and external environment already exist for the implementation of a spot exchange retention system.

2) Changes in ratios of the distribution of foreign exchange favor the implementation of a spot exchange retention system.

Under the foreign trade system introduced in 1991, 10 percent of local foreign exchange retained is to be turned

over to the central government and governments at all levels, and 40 percent of the remainder is to be retained by foreign trade export enterprises to help offset export losses. As for the numerous enterprises that manufacture exports, they can only obtain renminbi and not retained foreign exchange. That way foreign exchange is increasingly concentrated in the hands of foreign trade export enterprises and local governments. The concentration of retained foreign exchange facilitates regulation and control by the appropriate government departments and greatly reduces the burden and difficulty of reforming the foreign exchange retention system.

3) The existing renminbi exchange rate is favorable to the switch from foreign exchange quota retention to spot exchange retention.

The exchange rate of the renminbi was adjusted downward sharply twice, on 16 December 1989 and 17 November 1990. This was followed by yet another round of small adjustments beginning in April 1991, usually by less than 10 percent. The result is that the renminbi's foreign exchange quoted price is gradually closing its gap with the foreign exchange regulated price and is approaching the average cost of earning foreign exchange in foreign trade. The steady decline in the foreign exchange quota regulated price makes it possible for it to become a simple target for the use of foreign exchange. That way the conditions for replacing quota retention with spot exchange retention are gradually maturing.

4) The foreign exchange regulatory market has been further improved.

Some people worry that spot exchange retention would put additional pressure on the treasury to increase the money supply, leading to inflation. Actually such worries are unfounded. Spot exchange retention amounts to setting aside part of the renminbi obtained from account settlement involving foreign exchange derived from exports and turning it into spot exchange. Since it does not require an increase in the scale of renminbi credit funds, it will not cause inflation. The key question here is whether or not we can ensure that foreign exchange is promptly made available for account settlement and then converted into renminbi through the foreign exchange regulating center in time. Currently there are over 90 foreign exchange regulating centers and nine foreign exchange open regulating markets across the nation. Their scope of operations is gradually widening and the market mechanism is constantly improving. Major improvements have been made in their personnel, organization, market openness, operational efficiency, and access to information. The volume of business in markets are rising steadily. In 1991, foreign exchange regulatory markets nationwide did a total of \$20,451,000,000 in business, up 55 percent from the year before. A foreign exchange market with Chinese characteristics is gradually taking shape. Turning to the speed of retained foreign exchange transfers, after enterprises are held responsible for their own profits and losses, people have generally become efficiency-minded.

In some provinces, retained foreign exchange is being transferred via the telephone or even through a computer network, making the transaction significantly faster. After foreign exchange quota retention gives way to spot exchange retention, the methods for calculating retention would be simpler and quicker, the number of intermediate stages would be reduced, and transfers would be even quicker. This will set the stage for spot retention.

Moreover, opened coastal cities like Shenzhen and Hainan have carried out spot exchange retention to various extents. Lessons may be drawn from their experience to help work out the best development plan for spot exchange retention.

2. Advantages of Spot Exchange Retention

1) It meets the need of foreign trade development today.

These days the trends in international trade are regionalization and integration, with protectionism worsening and competition on the international market becoming more ferocious each day. All this requires that we face up to the challenges seriously. Besides working hard to open up the global marketplace, it is essential that an incentive mechanism be created within China that would help develop foreign trade. Foreign exchange retention reform has always been a major stumbling block in China's foreign trade reform. It involves a broad area and reform measures are hard to carry out. Since foreign exchange quotas are not reflected in the amount of funds taken up by an enterprise or the system of economic efficiency targets, the enterprise considers it a fringe benefit. Moreover, foreign exchange quota retention is still plagued by such problems as overelaborate procedures, complicated formalities, the lack of interest, and the risk associated with exchange rates. Thus the replacement of quota retention by spot exchange retention is better suited to the needs of foreign trade development and better able to help foreign trade enterprises speed up fund turnover, heighten efficiency-mindedness, and spur the enthusiasm for exporting, thus creating a favorable external environment to help enterprises assume responsibility for their own profits and losses. Moreover, when export enterprises can enjoy spot exchange retention just like foreign-funded enterprises, that will help create a new foreign trade environment featuring a level playing field.

2) It would help solve the problem of "one daughter, too many suitors" in foreign exchange and facilitate foreign exchange control.

The unspent balance of local retained foreign exchange and the foreign exchange balance of the central government together make up the nation's foreign exchange reserves. But now that "cooking is done in separate stoves," local retained foreign exchange is no longer at the disposal of the state. It is up to the local governments to decide how to spend it on their own. As a result, state foreign exchange quota balance will exceed spot

exchange balance, which will necessarily lead to competing demands on a limited amount of retained foreign exchange. After spot exchange retention is introduced, we can sort out the relations between local retained foreign exchange balance and state foreign exchange balance, accurately determine the contents of China's foreign exchange reserves, and further improve foreign exchange reserves management.

3) It would help the transition toward a single renminbi exchange rate.

Currently the renminbi foreign exchange quoted price, which is made public, exists side by side with the domestic foreign exchange regulated market price. The difference between the two takes the form of the foreign exchange quota regulated price, which determines the magnitude of the difference between the two. Thus replacing quota retention with spot exchange retention will make it easier to eliminate the price differential and combine the two into one, ultimately effecting the transition to a managed floating exchange rate system for the currency. This too will accelerate the restoration of China's status as a signatory to the General Agreement on Tariffs and Trade.

4) It would help the development of China's foreign exchange regulating market.

Right now there are two kinds of transactions on China's foreign exchange regulating market: those involving foreign exchange quota and those involving spot exchange. Foreign exchange quota regulated prices are influenced not only by spot exchange regulated prices, but also by the official foreign exchange quoted prices. With the two influencing one another, regulated prices on the foreign exchange market are distorted and do not reflect a reasonable exchanger rate for the renminbi, to the detriment of both our drive to adjust the exchange rate and the development of foreign trade enterprises. Following the introduction of spot exchange retention, there will be one single type of transactions and one single trading price, which would help nurture a large foreign exchange market in China in which only true foreign exchange (and not foreign exchange use rights) takes part in trading.

5) It would help prevent foreign exchange risk and improve business accounting.

Since foreign exchange retained quota carries no interest, it usually sits idle in the hands of enterprise, thus slowing down fund turnover. Also foreign exchange quotas come in only one currency, the dollar. Besides, before the enterprise fills in the import form, it is not allowed to convert it into spot exchange in advance. This increases the foreign exchange risk and makes such risk harder to prevent. After the introduction of spot exchange retention, foreign trade enterprises can take a host of steps to prevent foreign exchange risk, cut down on the amount of funds tied up, accelerate fund turnover, and improve business accounting and economic results.

The above analysis shows that spot exchange retention can eliminate the various drawbacks associated with quota retention, meets the needs of the new system under which enterprises assume responsibility for their own profits and losses, and serve China's foreign trade.

3. Proposed Measures

Because foreign exchange retention reform involves a broad area, we need full cooperation and support from all quarters to ensure the successful implementation of the spot exchange retention system.

1) Gradually reduce the difference between the official foreign exchange quoted price and foreign exchange regulated price.

Provided there is a stable spot exchange regulated price, we should adjust the exchange rate of the renminbi slightly downward again as appropriate. (See my work "How Egypt Merged Its Dual Exchange Rates Into One and What We Can Learn from it," WAIHUI SHICHANG, 1992 No 1). Taking a leaf from Egypt's book, we may begin by narrowing the difference between the two from the current 10 percent or so to 5 percent and then to 1 percent within a set period of time. The idea is to bring the official foreign exchange quoted price and foreign exchange regulated price in line with each other and reduce foreign exchange quota into simply a use of foreign exchange target with no value.

2) Further improve the foreign exchange regulating market.

First, formulate and promulgate as soon as possible a set of nationally applicable rules and regulations to manage the foreign exchange regulating market. Use legal tools to restrain market behavior and protect the rights and interests of players on the market, thus further standardizing and institutionalizing the foreign exchange regulating market. Second, depending on the nation's industrial policy at a specific point in time, adjust and regulate the foreign exchange direction guidance series and import policy so as to guide and control the foreign exchange regulating market through policy adjustments. Third, the central bank must set up a foreign exchange balancing fund that can really regulate and control the market in order to keep the foreign exchange market stable to put an end to the difficulties we used to experience in regulating or converting foreign exchange. In addition, the monetary policy, exchange rates, interest rates, and other economic tools should be used to influence the market indirectly and keep the regulated price at a reasonable level. Fourth, set up regional opened foreign exchange markets to solve such problems as regional separatism and market blockades. Fifth, ease restrictions on the uses of regulated foreign exchange as appropriate. By vitalizing the foreign exchange regulating market, we can turn retained foreign exchange into renminbi promptly.

3) Speed up verification and appropriation and retention; simplify formalities.

Further improve the existing method of calculating foreign exchange retention. Reduce the intermediate stages in verifying and appropriating retained foreign exchange. Use the telephone, electronic transfer, and other modern tools to transfer foreign exchange into the accounts of enterprise without delay in the interest of efficiency.

4) Tighten spot exchange account income and expenditure management.

Following the introduction of spot exchange retention, if spot exchange account management fails to keep pace and numerous loopholes appear, the result will be chaos, which will militate against the supervision and control of spot exchange accounts. Accordingly, we may introduce dual account management with regard to spot exchange retention accounts, which means that retained foreign exchange will be deposited into the income account. At the same time, depending on the needs of the enterprise in question, the foreign exchange control department will authorize a specified percentage of foreign exchange to be transferred into an expenditure account which can then be used by the enterprise on its own in accordance with the appropriate regulations. That way control, inspection, and supervision is easier, on the one hand, and enterprises also end up with expanded authority in the use of foreign exchange, on the other.

5) Offer spot exchange secured loans and adopt a policy of preferential credit to export enterprises.

The state may set aside a portion of funds to be used exclusively as spot exchange secured renminbi loans to export enterprises so as to solve the problem of conversion from foreign exchange to renminbi. In addition, foreign exchange banks should adopt a policy of preferential credit toward export enterprises and handle export credit as a major part of their business, actively supporting the earning of foreign exchange through exporting.

6) Implement spot exchange retention systematically in accordance with a plan.

It can be phased in during two stages. The first stage would convert quotas into spot exchange based on the official foreign exchange quoted price. Alternatively, the government may buy up all quotas through the foreign exchange regulating market and then retire them in full.

In the second stage, all newly earned foreign exchange would come under the spot exchange retention system to prevent chaos.

ECONOMIC ZONES

Shanghai Customs Support for Pudong

92CE0609B Beijing GUOJI SHANGBAO in Chinese
1 Aug 92 p 1

[Editor Li Hongmei (2621 4767 2734): "Shanghai Customs Does Many Things To Support Pudong Development"]

[Text] **Exclusive Dispatch** This year Shanghai Customs' support has been the major factor promoting Pudong's development and opening up, increasing its efforts and fully supporting an accelerated pace for Pudong's economic development.

—They organized forces to publicize their policy on Pudong development with more than 400 consultations and conducted ten customs policy symposia and one exhibition in Pudong, and made numerous visits to relevant departments to publicize customs policy to not only inform the people of Shanghai, but also to make companies and businesses throughout the country and even in foreign country aware of preferential policies regarding Pudong development and encourage them to decide to invest in Pudong. The Japanese JVC Company sent a person to Shanghai to investigate. After having heard Shanghai Customs introduce a series of preferential policies for Pudong's development and opening up, he applauded and the next day signed a US\$12.5 million investment contract with the Chinese people concerned.

—Actively support the Outer High Bridge Bonded Zone. Through the efforts of Shanghai Customs, the General Administration of Customs officially accepted the first bonded zone in the entire country, the Outer High Bridge Bonded Zone, on 9 March of this year. Shanghai Customs actively helps enterprises in the zone to properly and adequately use the preferential policies and approved two joint investment enterprise leases of bonded zone development company warehouses as temporary factories to help these enterprises begin production at an early date. They put forth a great deal of effort for the convenience of the six projects already in operation in the zone and the three soon-to-be opened automobile transshipment trade enterprises, receiving praise from the enterprises.

—Make it more convenient for the enterprises in the Pudong New Territory to handle customs procedures. They have practiced the "three preferences," preferential handling of reduced or tax-free approval procedures, preferential clearances, and preferential training of enterprise customs declarers, for import and export goods of enterprises in the Pudong New Territory. Before the Pudong customs organization was officially established and personnel and offices were lacking, they served the enterprises in overcoming various difficulties. From the time that customs stationed an office in Pudong in mid-April until now, they have accepted registrations from 171 enterprises and handled 21 reduced or tax-free procedures, amounting to 4.83 million yuan, and received 313 consultations with more than 650 people and trained two groups of declarers.

It is understood that Shanghai Customs since April 1990, when the central government decided to develop Pudong, has handled 761 registrations of enterprises in the Pudong New Territory and 1,420 reduced or tax-free

customs, for a total of 233 million renminbi, achieving good socioeconomic results.

Pudong: Hotbed for Domestic Investment

92CE0609A Shanghai JIEFANG RIBAO in Chinese
5 JUL 92 p 6

[Article by Shen Bogen (3088 0130 2704) and Li Song-qing (2621 2646 7230): "The Whole Nation Takes a Good Look at 'Eastern Shanghai'; A 'Rage for Domestic Investment' Surges Everywhere in the Precious Land"]

[Text] The Tide of Eastern Shanghai

Pudong by no means belongs only to Shanghai. Pudong also is a "geomantic precious land" of the republic and a "leading player" in China's omnidirectional development for the 1990's. So, "attaching the China label" is an essential choice in the development and opening up of Pudong.

On 10 March of this year, after Mayor Huang Ju announced that the State Council was conferring five preferential policies on Pudong, Pudong's development experienced an unprecedented upsurge in the "rage for domestic investment." By the end of May, the domestic investment enterprises approved this year had reached 104, with a total investment of 450 million yuan, more than doubling the domestic investment attracted by the Pudong New Territory in all of last year. Of that, all together 50 projects with a total investment of 210 million yuan were approved in May. In only one month, investment exceeded the total domestic investment attracted by the Pudong New Territory in all of last year.

- According to recent statistics, through the end of May, the total domestic investment of 450 million yuan in the 104 enterprises approved for domestic investment in Pudong New Territory this year more than doubled total domestic investment attracted to the new territory in all of last year.

According to preliminary estimates, this city's enterprises' investments in Pudong in the next five years will exceed 10 billion yuan. One group of key projects will start to be implemented this year.

Pudong's "Domestic Investment Rage" Has Reached a High Tide With the Enthusiastic Participation of Central Ministries, Commissions, and Offices

More than thirty central ministries, commissions, and offices have now decided to participate in Pudong's developmental intentions. The Ministry of Aerospace Industry, the China Petrochemical Corporation, the China Centralized Coal Mining Corporation, and the Ministry of Electrical Machinery and the Ministry of Materials are contending to take the lead in raising funds. One after another, they have signed formal agreements with the Shanghai Municipal Government, thereby becoming the point men in the large army of "domestic investors" in Pudong development.

—The Ministry of Aerospace Industry in three years will complete an aerospace foreign trade base in the Outer High Bridge bonded zone and they are setting about to construct the multistory China Spaceflight Building in the Lujiazui Finance and Trade District. During the Eighth Five-Year Plan, interest deductions on interest deduction loans provided to Pudong projects by the Ministry of Aerospace Industry will range from 10 to 15 percent. At the same time, they will make priority allocation of foreign exchange belonging to the projects. Pudong also will become an "experimental zone" for mechanism conversion of Ministry of Aerospace Industry enterprises, and three kinds of investment model enterprises, stock system forms, joint industry and trade types, and joint ministry enterprise, and local enterprise types can all boldly experiment in the "experimental zone." This year the Ministry of Aerospace Industry will be constructing and beginning operation on fifteen key projects in Pudong. Of these five will be aerospace projects, four will be automobile parts projects, and the rest will be in such areas as precision instruments and electronic technology. These actions will certainly have far-reaching effects accelerating the Chinese aerospace industry to world rates of production.

—The Chinese Petrochemical Industry Corporation, China's largest jointly managed entity, has already entered the "fast track" of Pudong development and is engaged in omnidirectional investment. In the Lujiazui Finance and Trade District, they will raise funds to construct the China Petrochemical Building to act as a financial, administrative, office, and service center for petrochemical enterprises in Pudong. They have obtained right of use to 22,000 square meters of land in the Outer High Bridge Bonded Zone and they will build the Shanghai Peigao Enterprise Limited in which the corporation's defense enterprise company owns controlling stock and the Shanghai Fudehua High Technology Enterprise Limited in which the corporation's materials and equipment company owns controlling stock. In the Golden Bridge Export Zone they will open a petrochemical industry processing zone and establish such export, low-pollution, high value added industries as carbon petroleum resin and special imitation feather down fiber.

—The China Centralized Coal Mining Corporation will establish the Shanghai Coal Exchange Market in the Lujiazui Finance and Trade District and set up spot trading in coal and medium and long term contract exchanges, introduce short term spot trading control mechanisms, and gradually improve market operations. The corporation also will construct a coal building in the Lujiazui Finance and Trade District to be used as a coal trading market, a base for the coal system to participate in Pudong's development, and a window for the development of coal high technology, import and export trade, and the display and sale of products from many types of businesses.

—The Ministry of Materials will establish “the Far East’s first” wholesale market and futures market for production materials in the Lujiazui Finance and Trade District, joining up with international financial markets and grain and agricultural byproducts markets to become a main force in promoting Pudong’s development. The Ministry of Materials also has established a large group of modern materials circulation bases such as steel trimming centers, material distribution centers, and standing warehouses and containerized shipping centers in the Golden Bridge Processing Zone and in such places as Bailianjing and Zhangjiabang, and in addition has established the Oriental Materials Conglomerate in Pudong through a stock system linking the materials and related enterprises of the ministry, the municipality, and the county to undertake the new method of relying on trade backed by finances to start enterprises and conduct domestic and foreign trade, link technology, industry, and trade, and coordinate with the real estate and tourist industries.

Provinces and municipalities from all over the country look favorably on Pudong and are striving to gain a foothold. This year actual investment in Pudong by provinces and municipalities has greatly increased. Anhui and Shandong’s investments have been the greatest of these and got the earliest start. Anhui Province collected funds to raise 150 million yuan to purchase 6,000 square meters of land and is building the thirty story 38,000 square meter Yu’an Building in the Lujiazui financial district. Construction officially started in March of this year and it will be made available for use in 1994. Anhui also purchased land in the Golden Bridge Export Processing Zone and will build standard factory buildings that can contain twenty factories and use the Golden Bridge Export Processing Zone as a springboard to the entry of the province’s products into the international market. In addition, they also will invest 40 million yuan to develop a port that will berth a total of 4,000 tons and put an end to the situation where other provinces have not had piers in Shanghai.

Presently the Changjiang Joint Development Company, Ltd., is being established. The company, headed by the Bank of Commerce and jointly invested in by the cities along the river, by developing material, commerce and trade, information, and consulting businesses and starting “stores in the front and factories in the back” will promote the joint economic development of the Changjiang basin.

Accelerated Introduction and Sustained Heating Up of the Pudong “Domestic Investment Rage” Because of the City’s “Group Army”

This year Shanghai’s major industries are more rapidly extending into Pudong like a “group army.” According to preliminary estimates, the city’s enterprises will invest in excess of 10 billion yuan in Pudong in the next five years and a group of key projects will begin to be implemented this year.

The Pharmaceutical Control Administration, in the Eighth Five-Year Plan, will concentrate 80 percent of the administration’s investment in developing high starting point, high level, high efficiency, and economy of scale pharmaceutical enterprises in Golden Bridge, Changjiang, and Gong Lu in the Pudong New Territory. Development of the Pudong pharmaceutical industry group is geared toward the future and geared toward the world and forms a new situation unifying science and technology, production, and circulation. At the same time, the Municipal Pharmaceutical Administration will accelerate the development of Pudong’s scientific research and educational institutions and multifunctional pharmaceutical commercial centers. Ground will be broken at Golden Bridge for a Pharmaceutical Trade Exhibition Hall as a window to display renown new Chinese medicine products from throughout the country—The Shanghai Pudong Chinese Medicine Trading Commercial Building also will tower over the Zhangyang Lu Commercial Center.

The city’s instrument industry also is extending into Pudong. The Shanghai Instrument Conglomerate that ranked first in the whole country in that industry last year will open an instrument industry section in the Golden Bridge Export Processing Industrial Zone and is presently seeking 10,000 square meters of land and plans to set up ten high technology Chinese and foreign joint investment enterprises with a total investment of US\$20 million.

The Shanghai Cultural Educational and Sports Goods Import and Export Company, called a “tide setter” in reform and opening up, has more than once broken the waves in developing Pudong. The Municipal Foreign Economy and Trade Commission has approved the company as the first foreign trade company to establish a subsidiary in the Outer High Bridge Bonded Zone. Its subsidiary, the Shanghai Advanced (Pudong) Import and Export Company, has formally requested land in the Outer High Bridge Bonded Zone and will strive to seek out a new path to develop international trade in the bonded zone and will actively explore such issues as foreign trade enterprises conducting a stock system.

The Light Industry Administration has invested 320 million yuan in the Golden Bridge Export Processing Zone and will set up the Meilin Food Industry City, occupying nearly 200,000 square meters of land and containing the country’s largest baby food processing center and a newly constructed beverage processing center. In addition, the Meilin Food (Conglomerate) Company also is attempting to establish a “central kitchen” combining various types of fast food production and open a succession of fast food chain stores and self-service supermarkets at Golden Bridge. As of now, the light industry system has obtained permission for more than twenty new projects in Pudong and will gradually form several light industry processing districts in Pudong.

Shanghai's first mainstay industry, the automobile industry also will invest in Pudong's development. The industry's three key enterprises—The Heavy Automotive Factory, the Automobile Chassis Factory, and the Second Automobile Chassis Factory—will join up the automobile manufacturing companies in the Pudong New Territory, thereby opening up a "second campaign" for the Shanghai automobile manufacturing industry.

The China papermaking industry's largest production and business base, the Shanghai Papermaking Company, recently made a "big move" in transferring its general headquarters to the Lujiazui Financial and Trade Zone. The company will have a succession of nine new projects go into production in Pudong this year.

The information and consulting industry also is quietly springing up in Pudong. The Shanghai Fudan Pudong Developmental Consulting Company has become the first comprehensive consulting firm oriented toward foreign and domestic [clients] in the Pudong New Territory and the first knowledge industry to be established in Pudong by the municipality's higher education system. The company can join up experts and scholars from such disciplines as social science, natural science, technical science, and engineering and offer omnidirectional, multilevel, high quality consulting services with outstanding talent and knowledge to all sectors of society. In addition, the company also is setting out to research establishing and operating models for the Pudong New Territory to deal with fund raising and new administrative and management systems. In addition, through its foreign branch organizations and cooperation with foreign consulting firms, it encourages foreign firms to invest in Pudong.

If we want to attach the "China label" to Pudong's development, we can predict that we only need to seriously study the preferential policies that the central government has given to Pudong New Territory and do a good, and adequate, and an active job of using the Pudong New Territory's preferential policies and the "China label" of Pudong's development will certainly be more brilliant and more beautiful.

POPULATION

Relationship Between Population Quality, Development

92CE0625B Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese
No 29, 27 Jul 92 pp 34-35

[Article by Chen Zhixian (7115 2535 6343), assistant professor, Jinan University: "A Look at the Relationship Between Population Quality and Economic Development From the Viewpoint of Guangzhou"]

[Text] Disparities Between Shanghai and Guangzhou

Since the spring of this year, following the rush for the Pudong development, Shanghai newspapers have continuously been publishing articles that have revealed faults and problems in Shanghai's social and economic construction. Not only did they themselves rake up their own faults, but they also solicited the help of others, reprinting foreign commentaries to help in these revelations. For instance, the JIEFANG RIBAO of 12 April 1992 contained, under heading "Where are the Differences Between Shanghai and Guangdong?" excerpts from a special report of the Japan Credit Bank, which praised the "opened-up attitude" and "serious work spirit" of the Guangdong cadres. The subtitle of the article reads: "Forging Courageously Ahead With Reform and Opening-up, in Singular Cultural Excellence Ranking Best Among Southern Countries." Based on this kind of a perception, there have been endless discussions, even up to now, that Shanghai should take Guangdong as an example, from cookie production to the design of jewelry, from the production target for electric rice cookers to the market share of car audio components, from the economic growth rate to the GNP, from brain drain to attracting foreign investments, comparisons are made one after another with Guangdong and differences sought out. Economic development in Guangdong has indeed achieved many successes, thereby attracting attention in China and abroad. To say that Guangdong is "courageously forging ahead" is close to the truth, but as to the "cultural excellence" that is really exaggerated praise. One has to say, though, that in serious self-criticism and courageous liberation of minds from old ideas, Shanghai is well ahead of Guangdong.

Analyzing the historical development, it is a fact that since the beginning of opening-up and reform, Guangdong was one step ahead and somewhat faster than Shanghai. Prior to the 1980's, Shanghai's industrial output accounted for one-sixth of the national industrial output value, its remittances to the central government's finances also made up one-sixth of the national revenue, while the total national output value of Guangdong ranked only seventh place nationwide among all provinces and municipalities. However, by 1991, when Guangdong's national output value had risen to 168.9 billion yuan, it was the highest among all provinces and municipalities, while Shanghai's was only 82.5 billion yuan, ranking eighth. Guangdong's exports were 13.54 billion yuan, while Shanghai's were 5.73 billion yuan, lagging behind Guangdong and Liaoning. Then again, if the situation is viewed in a realistic comparison, Guangdong must actually ask itself the question: Where indeed are the differences between Guangdong and Shanghai? In 1991, Guangdong had a population of 64.39 million, which amounted to 5.4 percent of China's total population. Shanghai's was only 12.87 million, or 1.1 percent of the total population, i.e. only about one-fifth of Guangdong's. If national output value, total industrial output value, and export value are taken per head of the population, Shanghai is by far ahead of Guangdong. This huge difference results from the difference in population quality.

In Guangdong Province, Guangzhou is the region of the highest population quality, where most of its best qualified personnel is located, but the disparity of even that region to Shanghai is very large. According to a 1988 census, Shanghai has somewhat over 840,000 people with special professional skills, who make up 6.4 percent of the total population. Among these, 46.98 percent are of university or higher educational level. In Guangzhou Municipality, there are only 202,300 persons with special professional skills, who make up only 3.3 percent of the population of Guangzhou, and among these only 16.13 percent are of university or higher educational level. Not long ago, the two largest newspapers in Shanghai used several pages to introduce natives of Shanghai who had been newly appointed to membership in various institutes of the Chinese Academy of Sciences, and what did Guangdong have to show? In numbers and quality of well-qualified professional talents Guangdong is very far behind Shanghai. In last year's survey by the Chinese Academy of Social Sciences, the nationwide average of population quality was marked as 9.9. In this survey, Shanghai scored highest with 17.1 marks, next came Beijing and Tianjin with 16.8 and 15.3 marks, respectively. Places scoring 10 or more marks were Liaoning, Jilin, Shaanxi, Jiangsu, Heilongjiang, and Zhejiang, while Guangdong was below the nationwide average! Excellent population quality was not only to the benefit of Shanghai, Guangdong too benefited from it to no small measure. The economic success of Guangdong comprises huge contributions by people originating from Shanghai.

Outstanding Achievement in Guangzhou by Shanghai Natives

Cantonese cookies have an 80 percent share of the Shanghai market. The people of Shanghai first attributed that to the fact that the Cantonese may have been using "foreign rifles and guns" (imported equipment) to gain this excellent achievement. Investigation showed, however, that the entire production line had been manufactured in Shanghai, and that the technical staff operating the cookie production line had to 80 percent come from Shanghai. China's first electric rice cookers were generated in Shanghai, but today Shanghai's annual production of electric rice cookers amounts to only one week's production of the "Ai De" brand cooker made in Guangdong. However, the head of Ai De's public relations department is a native of Shanghai. Guangzhou's "Hua Bao" brand low-noise composite air conditioner, because of its novel design, excellent quality, and reasonable price, has conquered the Shanghai market. However, the head of Hua Pao's sales department is from Shanghai. The highly successful "Fu Shen" T-shirts were helped along to success and growth, it is said, by some disloyal personnel who changed over to the Guangdong manufacturer from the Shanghai factories that had made the nationwide famous "Conch" and "Green Leaf" brand shirts. According to Shanghai statistics, since the reform and opening-up, the Zhujiang Delta region has absorbed over 12,000 engineers and technical personnel

from Shanghai. Last year, among the more than 10,000 persons flowing into Guangdong Province from all over the country, there were over 1,500 who came from Shanghai! To my mind, if there had not been these many people with exceptional skills, could the socioeconomic development of Guangdong have reached today's proportions? History must not be mere conjecture, let us then look at the stern realities.

High Quality Talents Ensure Rapid Economic Growth

History of the present economic development in the world shows that land and natural resources are by far less important for modernization than human resources. Holland, Sweden, Denmark, Norway, Japan, Israel, Hong Kong, Singapore, Korea, and Taiwan Province have little cultivated land, few natural resources, and also no extended territories. Because their primary consideration had been to raise the quality of their populations, it is their high-quality populations that not only allowed them to efficiently bring their particular advantages into play, but also to use their advantages to achieve rapid economic advances so that they, in due course or immediately, joined the ranks of developed countries or territories. Looking at the economic development in the interior, the statistics of 1987 show that Shanghai's industrial equipment was more or less the same as the average nationwide, but labor efficiency of all staff and workers, the rate of profit-tax per 100 yuan of assets in the industrial sector, and the output value per head were all more than double that of the nationwide average. In this kind of a competition, the quality of Shanghai's population played a decisive role. Looking at such indices as admissions to middle schools and elementary schools, rate of students at institutions of higher learning, the school ages of citizens, and rate of workers in the natural sciences per 10,000 of the population, we see that the average educational standard of Shanghai citizens and their educational development is somewhat higher than that of Hong Kong and Singapore, and close to that of Korea and Taiwan. It is very obvious that the high quality of the population has resulted in the economic benefit of technological and managerial superiority.

Merciless reality tells us that capital funds are important, but much more critical is how these capital funds are used. In other words, only with a large-scale development of human resources, raising of population quality, and accomplishing an optimum combination of human resources and economic resources, will there be a possibility of promoting a sustained, steady, well-coordinated, rapid, and highly efficient development of the economy, and a possibility of achieving an upsurge in the economy.

Economic and Technological Competition; Talent Competition

The domestic and international competition in today's world is, in its final analysis, a competition of humans, particularly a competition of talents of the higher levels. The focal point of the competition is the effort to raise

population quality and to develop resources of human talents. In order to nurture talents of medium and higher levels, Shanghai has already determined its policy and adopted certain measures. This year's extension by Shanghai of admissions of students studying at own expenses is a reform measure that will have a far-reaching impact. Comparing Shanghai's plan quota for admissions with the total number of students having preregistered for the entrance examination, the ratio to those ultimately admitted is as high as 1 to 1.93. To extend quotas for enrollment, Shanghai will raise the proportion of students studying at own expense from the former total quota of 3 percent to around 7 percent. The special fields of study for which students at own expense will be admitted will all be specializations urgently needed for socioeconomic development, where there is a critical shortage of specialists. Shanghai will also change the former method according to which, by special favor, some students are recruited who fall below the boundary line of the entrance examination requirements for institutions of higher learning. Candidates for the entrance examinations will be allowed to choose whether to take the examination for studies at public expense or at own expense, allowing students with excellent school records to make study at own expense their first choice. In respect of one's student status and in administrative respects, both systems work out basically the same as in both cases the students can enjoy scholarships and study loans. The students on own expense can freely choose their vocations and are not subject to time restrictions when serving abroad after graduation. If China's education is to be greatly improved, it is essential to achieve a breakthrough in the matter of the forbidden zone of paid-for education, and to resolve the present situation of only the government alone monopolizing all education. In this respect, the people of Guangdong themselves have amply commented and have held many discussions, and loud voices have been raised, demanding a more thorough reform of higher education, but actual measures have so far not yet been taken.

The ratio between those sitting for entrance examinations to institutions of higher learning and those actually enrolled was this year 1 to 3.7, which is far below the Shanghai figure. The figures for university students per 10,000 heads of the population was: for Shanghai 90 persons, nationwide average 17.6 persons, for Guangdong only 14.6 persons. The figures for persons having graduated from universities and colleges per 10,000 heads of the population was in Guangdong 84 persons less than the nationwide average. Higher education in Guangdong is in urgent need of development. Furthermore, the enrollment of students in institutions of higher learning in Guangdong is basically done in the unitary way of plan enrollment, admissions of substitute students [dai pei sheng 0108 1014 3932] and students studying on own expense are also completely incorporated in the plan. In this way, the system can neither play a regulatory role with respect to the talent market, nor does it have any regard for the future needs of talents in

Guangdong; it also does not consider how it can serve Guangdong in its efforts to catch up with the "four small dragons" of Asia.

Education and Reform To Lead in Efforts To Catch up with the "Four Small Dragons"

Guangdong plans to catch up in its economic development with the "four small dragons" of Asia within the next 20 years. Korea's per capita average output value, which is the lowest among the "four small dragons," is still three times that of Guangdong. If the average economic growth rate in Korea in the next 20 years is around 8 percent, Guangdong will only be able to realize its objective of catching up if it can maintain a growth rate of 14.2 percent. In other words, Guangdong's reservoir of specialized talents must annually increase progressively by 10 percent, and within this century must add 40,000 to 60,000 persons, only then can the social and economic needs of development of this province be met. How to solve this huge demand for talents? In the 1980's, Guangdong used the method of "much money and great courtesy" to grab talents from other provinces and thus was able to resolve a situation of extreme urgency. But siphoning off for Guangdong's benefit talents from the economically less developed regions isn't that as good as adding to the economic distress of those regions. At the same time, continuously widening the disparity between Guangdong and the economically underdeveloped provinces is not at all good news for the nation and for Guangdong. The interflow of talents is an indication of social progress, but the socialist construction must also give consideration to the interests of the whole and to the social mode of operation. In solving the problem of needed specialized talents, Guangdong must still rely on itself to energetically nurture such talents. With the restraints on state educational expenditure, the plan state-supported students must be enrolled according to plan, that is something people will understand. What people will also understand is that education is not consumption but is rather a family's and the state's investment, and an investment with the highest rate of returns. Guangdong's economy has already achieved very great improvements, great changes have also occurred in the people's living standard, and the hope that children will in future enjoy more and better education has become the fervent desire of all the many heads of households. If only economic construction is upheld as focal undertaking, there will be no problem about the distribution of university students. As long as there is urgent need for and great shortage of specialists in society and in the economy, there would be no need to worry about unemployment for graduates of universities. The state is now about to reform the system of employment of labor; educational development must be at the head of these efforts. Because schools are nurturing the future talents, educational reform must have primary consideration. Guangdong's economic development and social environment has all the preconditions to take the first steps in the reform of higher education. Based on the above analysis, the following three suggestions are put forward:

meet quality standards. In addition, they must further strictly guarantee quality of parts and auxiliary equipment from outside the plant that are used in products. All units must also do a better job of providing technical services, paying attention to customer feedback information. They must guard against and overcome the tendency to overlook technical services when production climbs and work becomes fairly heavy, providing customers with better service.

3. Attention to technological preparations for production and business developmental work to ensure sustained production in the coming year.

While paying attention to fulfillment of current year plan, corporations and (groups) in all jurisdictions must work with enterprises to improve overall balance, to do overall planning, and to pay attention to technological preparations for production in an effort to lay a solid foundation for breaking the 1.2 million ton mark in shipbuilding during the coming year. Right now, both designing units and materials supply units are coordinating with business enterprises on placing orders for the materials and equipment needed for ships for which contracts have been signed. At the same time, they are further developing domestic and foreign markets. Enterprises that do not have sufficient work to do, in particular, must do more to organize main forces to drum up business.

4. Attention to safety, making work safety routine and standard.

While further improving the safe production responsibility system and building a body of rules and regulations, the main task today is to guard against harm from heat, flooding, and the wind, promptly eliminating hidden dangers and unsafe practices to ensure safety in production.

5. Attention to reform, positively transforming the enterprise operating mechanism.

At the present time, several of the major shipyards have orders on hand for a fairly large number of ship models; thus, conditions are good for improving shipbuilding production plans for adjusting the organization of labor, and for integrating hull building, [words indistinct], and painting according to regional work location. Therefore, shipbuilding concerns, particularly large shipyards in which conditions are better than elsewhere, must concentrate on reforms that shorten the period required to build a ship, and move ahead with shipbuilding production systems in a planned way.

AGRICULTURE

Fertilizer Glut Choking Small Production Plants

92CE0642D Beijing JINGJI RIBAO in Chinese
20 Jul 92 p 3

[Article by Wang Ke (3769 4430): "Serious Oversupply in Small Chemical Fertilizer Plants Nationwide, Production and Marketing Policies in Serious Need of Adjustment"]

[Text] Authorities concerned in the Ministry of Chemical Industry have revealed a serious oversupply of chemical fertilizer in small manufacturing plants throughout the country since 1990. Currently chemical fertilizer in inventory in small plants throughout the country totals 3.993 million tons—2.582 tons of nitrogenous fertilizer and 1.411 million tons of phosphate fertilizer. In Hebei, Shanxi, Anhui, and Jiangsu provinces, the oversupply is particularly serious. This is the third serious occurrence since 1980 of slack sales and the accumulation in inventory of chemical fertilizer.

Lack of coordination between production and marketing, and lack of chemical fertilizer enterprise operating and sales authority are the main reasons for this overstocking of fertilizer in small plants. The large inventory of chemical fertilizer at the Qidong County Chemical Fertilizer Plant in Hunan results from huge cutbacks in Agricultural Means of Production Corporation purchases. During 1991 and 1992, the county government held 40 meetings without being able to bring production and marketing into line. The plant manager headed a group that went into the countryside to push sales, but using the fertilizer "monopoly" as the reason, the Agricultural Means of Production Corporation put roadblocks in their way, and vehicles that the peasants drove to the chemical fertilizer plant for the purchase of fertilizer were also intercepted. As of 10 April, this plant had more than 3,100 tons of chemical fertilizer in inventory. Yet another reason for the oversupply of small plant chemical fertilizer is the fall in grain prices, which has caused the peasants to use less fertilizer. Fertilizer imports in excess of plan also seriously hurt the domestic small plant fertilizer market. In addition, no unified control mechanism has been formed to plan, produce, import, sell, and use chemical fertilizer. Ability to respond to emergencies is lacking.

The extremely sluggish sales and accumulation in inventory of chemical fertilizer from small plants pose a serious threat to the survival and development of small chemical fertilizer enterprises. Reportedly 490 of the 983 small nitrogenous fertilizer plants in the country as of the end of 1991, i.e., 49.8 percent of them, were losing money, their losses amounting to 4.18 million yuan. As a result the authorities concerned have called for effective actions to solve the problem of small chemical fertilizer plant slack sales and overstocking. They asked that chemical fertilizer enterprises be given authority to make their own operating decisions in accordance with state requirements for moving enterprises in the direction of the market. The chemical fertilizer monopoly policy currently in force causes suffering for both production enterprises and the means of agricultural production supply and marketing sector. Production enterprises complain that their "hands and feet are bound too tightly"; they have no operating or sales decision making authority. Meanwhile, because of the inversion between chemical fertilizer purchase and sales prices, the agricultural means of production sector's economic returns have declined, and it has even sustained serious losses.

1. Starting from this year, large increases in Guangdong's admissions of students studying at their own expense. Next year's enrollment rate for those taking the entrance examinations to institutions of higher learning to be at the same level as in Shanghai.

2. To assure nurturing such talents that are in critical short supply, it is necessary to avoid filling up the available positions with incompetent people. It is necessary to increase specializations and length of schooling for students on own expenses. In matters of status of students and management, one may follow the example of Shanghai, with a proper integration with Guangdong's special conditions, and with further perfections and substantial improvements.

3. Students studying their own expense should be offered low interest study loans, to be repaid after graduation. Appropriate care and financial inducements shall be offered in certain specialized lines (e.g. teachers training, forestry, geology, etc.) to students who voluntarily wish to return to their places of origin in economically backward regions.

TRANSPORTATION

Major Shipyards Strive To Improve Timely Deliveries
92CE0669A Beijing ZHONGGUO CHUANBO BAO
in Chinese 31 Jul 92 p 1

[Article: "Shipping Corporation Production Rises Steadily During First Half of Year. To Continue Efforts During Second Half of Year To Ensure Delivery of More Than 1 Million Tons for the Whole Year"]

[Text] Encouraged by the spirit of Comrade Deng Xiaoping's remarks during his travels in south China, production in the shipping corporation system rose steadily during the first half of the year thanks to the joint efforts of the rank and file of staff members and workers. Enterprises fulfilled 61.2 percent of gross industrial output value called for in plan, up 20.8 percent over the same period in 1991. This included a 64.75 percent fulfillment of the ship repair output value called for in plan, and a nearly 40 percent rise over the same period in foreign exchange earnings from ship repair. During the first half of the year, the system handled domestic and foreign shipping orders totaling 1.313 million tons, an all time high for the same period. The number of ships built and their tonnage fulfilled 39.3 and 37.2 percent of plan respectively; and the number of completed diesel engines produced and their horsepower amounted to 29.1 and 38.6 percent of plan respectively. Among nonship products produced were hydraulic supports, railroad gondola cars, shipping containers, B-chao [6389], duplicating machines, electric refrigerators, and oil pumps, all of which fulfilled plan for the first half of the year rather well.

Checking was completed during the first half of the year on ninety-two, or 44.7 percent, of the 206 critical points for testing on military and civilian ships and associated products that the shipping corporation listed in 1992.

Profits for the first half of the year increased 93.2 percent over the same period in 1991; and the number of failing enterprises and the amounts of their losses were fewer than for the same period in 1991, economic returns rising markedly.

Quality standards were met rather well during the first half of the year, no major quality shortfalls occurring. The qualifying rate for first X-ray inspection of ship welds, the first class product rate among ship particulars evaluated, and the qualifying rate for the first inspection preliminary to acceptance of ship products were all substantially higher than evaluation standards require.

The main problem in production during the first half of the year was failure to fulfill shipbuilding plans on time, which will increase difficulties in increasing shipbuilding production during the last half of the year. In addition, failure to deliver needed equipment on time was also a fairly serious problem.

Reportedly, in order to ensure fulfillment and over-fulfillment of 1992 production plan, and to ensure that the tonnage of newly built ships completed and turned over will break the 1 million mark, during the last half of this year, the shipping corporation system will emphasize work in the following ways:

1. Attention to further implementation of plan for the last half of the year.

In shipbuilding, attention will focus on the building of the 4,200 cubic meter LPG No. 2, the 68,000 ton tanker No 2, and the 65,700 freighter No 9 at the Jiangnan Shipyard; on the 62,000 twin-hull tanker No 1 at the new Dalian Shipyard; and on the 35,000 ton freighter No 1 at the Guangzhou Shipyard. The emphasis in providing shipboard equipment will be on the Sichuan Diesel Engine Plant's 12V230 diesel engine, the Dalian Shipboard Diesel Engine Plant's, and the Yichang Ship Diesel Engine Plant's low speed diesel engines, as well as on the Anqing Shipboard Diesel Engine Plant's power plant, the Wuhan Shipboard Machinery Plant's deck engines, and the Dalian Shipboard Valve Plant's valves. In the ship repair and nonship products fields, further emphasis will be given to business management, opening up of markets, and getting more work to do.

2. Attention to quality in order to gain greater customer confidence.

Leaders at all levels in all units must devote more attention to quality. Not only must those responsible for leading production and for inspecting products do better inspection and quality analysis work, but they must concentrate on problems in their units, taking actions to solve them within a certain period of time. They must refuse to let out of the plant any product that fails to

There is no interest in either buying or selling. To get out of this predicament, quite a few places in Henan, Anhui, and Shandong provinces have actively explored direct supply and sales. Ever since 1987 the Tancheng County Chemical Fertilizer Plant in Shandong has directly supplied chemical fertilizer throughout the county, producers and users dealing directly with each other to the satisfaction of both.

Ministry Backs Farm Product Reform

92CE0642C Beijing JINGJI RIBAO in Chinese
19 Jul 92 p 1

[Article by Peng Xiaoyuan (1756 2556 0337) and Zhang Zichen (1728 1311 5256): "Ministry of Agriculture Proposes Gradual Removal of Price Restrictions; Integration of Agriculture, Industry, and Trade"]

[Text] The Ministry of Agriculture held an enlarged meeting of the ministry party organization a few days ago where several ideas were proposed for the intensification of reform and greater opening to the outside world.

It called for adoption of a positive policy toward farm product prices, gradually removing restrictions. As a result of two huge price readjustments, the procurement price and the sale price of grain is virtually the same. The pace of reform of other farm prices must also be properly speeded up.

Development and perfection of the integration of agriculture, industry, and trade. Agriculture must use development of productivity as a basis for fanning out in all directions to break the pattern of disjunction and separation of production, exchange, distribution, and consumption.

Need to raise funds through numerous channels to develop the rural economy. Various kinds of development funds must be tried out, and farm-operated enterprises must form groups, operate a stock share system, and sell bonds.

Efforts to expand foreign trade must be in two regards. One is for farm-operated enterprises to have a certain amount of foreign exchange retention authority to make fullest use of the ability of agriculture and township and town enterprises to earn foreign exchange through exports. Second is support for the development of border trade and joint venture enterprises.

Active participation in commodity circulation. Guidance must be provided for the development of rural country fair trade. Commodity bases must be used to develop premium agricultural products as a means of breaking new ground, a number of agricultural by-products wholesale markets being established in a planned way.

The Ministry of Agriculture emphasized the need to experiment boldly, to suit actions to local conditions, to

provide tailored guidance, and to guard against rushing headlong into action in the course of intensifying reform and expanding the opening to the outside world. Rural villages must call a strict halt to assessments, the destruction of resources, violations of economic laws, and criminal offenses.

Demand for Livestock Feed Unsatisfied

92CE0642B Beijing JINGJI RIBAO in Chinese
17 Jul 92 p 3

[Article by Jiang Qi (3068 7871): "China's Livestock Feed Industry Shows Steady Rise, Third in World in Gross Output of Blended Feed"]

[Text] Recent data from the Chinese Livestock Feed Industry Association show that China's livestock feed industry has now gone from the stage of laying a foundation to the stage of steady rise, showing heartening achievements.

The country's output of blended livestock feed stands at more than 30 million tons a year for third place in the world. Quality of blended chicken and hog livestock feed was demonstrated in a random sampling conducted in six southern provinces in 1991 in which the pass rate was 91.2 percent. This was much higher than during the previous year. Among the various kinds of products available, output of readily saleable concentrated livestock feeds, pre-blended livestock feeds, and pellet livestock feeds increased most rapidly. Poultry feed, from which the payback is fairly high, amounted to 40 percent of the total. In recent years, livestock feed processing plants throughout the country have improved management and done more scientific research for an increase in economic returns. At the recent "All-China Livestock Feed Industry Exchange Meeting on New Techniques and New Products" held in Shenyang, nearly 1,000 different products were displayed. This was an unprecedented number. Thirty eight of the products won special class prize, and 98 won first prize.

According to authoritative persons, some problems also exist in China's livestock feed industry, principal of which are as follows: 1) Insufficient output. Output of blended livestock feed accounts for only one-fourth of enriched livestock feed consumption. In addition, distribution is very uneven from place to place, production developing rapidly in south China and coastal areas, and slowly in some parts of north and northwest China. 2) Uneven quality. The certification rate in some places and for some products (such as hog feed) in north China is not high. Third, markets have not been opened up in some places and for some products; livestock feed processing capacity is not used to the full, economic returns suffering as a result. Fourth, basic industries such as sources of supply for protein and for livestock feed additives have not developed rapidly; consequently, many livestock feed additives still must be imported. Authoritative persons believe that solution to these

problems lies in further intensification of macroregulation and control, better management, adherence to a policy of everyone running livestock feed industries, and linking development of the livestock feed industry to the livestock raising industry, vigorous attention to scientific and technical progress, continuous readjustment of the product mix, and improvement of product quality.

Article Hails Achievements in Agriculture

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16 Jul 92 p 2

[Article by Wang Xinjian (3769 0207 1696) and Zhang Zichen (1728 1311 5256): "Marked First Phase Achievements in Overall Development of Agriculture. Henan, Shandong, Heilongjiang, and Jiangsu Make Fairly Good Showing"]

[Text] Five ministries and commissions including the State Comprehensive Agricultural Development Office and the Ministry of Agriculture recently examined and accepted first phase comprehensive development projects in 10 of the country's provinces and autonomous regions. They acknowledged remarkable achievements in the development of agriculture that were fully accepted by the public. Provinces making a fairly good showing were Henan, Shandong, Heilongjiang, and Jiangsu, with Liaoning, Hebei, Zhejiang, and Anhui doing well, and Jilin and Xinjiang performing passably. In addition, they pointed out problems that should be looked at and methods for solving them.

According to a briefing, the 10 projects were as follows: The Sanjiang Plain project, the Songliao Plain project, the Liao He Delta project, the Hebei-Henan-Shandong-Anhui-Jiangsu Huang-Huai-Hai river basin project, the Xinjiang cotton and sugar base project, and the Hangjia Hu and the Jingu Basin project. Results of

the examination preliminary to acceptance show near fulfillment or over-fulfillment of the main norms of the foregoing development projects that the state has prescribed since 1988 were nearly fulfilled or over-fulfilled, state prescribed acceptance standards being substantially met. The amount of low and intermediate fields transformed, barren land reclaimed for agriculture, area afforested, and grasslands improved totaled approximately 65.13 million mu. Investment totaled nearly 7.5 billion yuan, the central government agricultural development fund and local matching funds (including public subscriptions) providing 1.9 billion and 4.22 billion yuan respectively. Publicly raised funds totaled 2.45 billion, and the peasants contributed 886 million man hours in full expression of the principles of civilian action with public assistance and self-reliance.

Not only did comprehensive development improve basic conditions for agricultural production, improve ability to withstand disasters, raise the level of agricultural modernization, and improve the ecological environment, but even more heartening was the marked increase in peasant income. For example, over a period of three years, peasants in the Henan project area saw a 51.9 percent increase in their net per capital income. In Jiangsu, the increase was 42 percent. Farmland development at Baoqingling in Heilongjiang Province removed the hardship label that the area has carried for many years. As a result of comprehensive development, Jilin Province achieved self sufficiency with some surplus in the production of rice and pork, thereby bringing to an end a long period of outside deliveries.

In examining the projects preliminary to acceptance, the five ministries and commissions also noted problems. Examples included too many development tasks in some jurisdictions resulting in too little investment in each one. They emphasized the need for higher standards in the future, "fewer but better" projects being preferable.

Developments in Shanxi Socialist Literature, Art

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16 Apr 92 pp 8-13

[Article by Zhang Weiqing (1728 4850 1987): "Adhere to the Orientation Pointed Out by the 'Talks,' Promote the Flowering of Socialist Literature and Art"]

[Text] It is now the 50th anniversary of the issuance of Comrade Mao Zedong's article "Talks" at the "Yan'an Forum on Literature and Art." Looking back on the half-century history of the development of the revolutionary literary and art movements and socialist literary and art undertakings in Shanxi, we distinctly noticed that it was the spirit of the "Talks" that had nurtured generations of writers and artists in Shanxi and had borne rich fruit in literary and artistic creation. Especially after the Third Plenary Session of the 11th CPC Central Committee, Shanxi literature and art entered a period of prosperity with a galaxy of talent and a plenty of excellent creations. This is one of the best times in its literary and artistic history. In promoting both the material and the cultural and ideological progress, the literary and art circle is one of the fruitful branches. However, these achievements are all results of our efforts in adhering to Mao Zedong's literary and artistic thinking under new historic conditions as well as in adhering to the basic orientation pointed out by the "Talks." The spirit of the "Talks," as we understand it, is still of instructive significance in the practice of today's socialist literature and art.

I. The "Talks" Guides Us To Have a Correct Understanding of the Superiority of Shanxi Literature and Art, and To Make Great Efforts and Yield Good Results in Carrying Forward the Two Traditions.

Shanxi is an inland province. The general standard of its economy and culture is rather backward. To make its socialist literature and art prosper, we first of all met with the problem of whether we could clearly understand our own advantages and establish our own confidence. In literary and artistic fields, Shanxi has two valuable legacies, i.e., the fine tradition of the national and folk culture and the tradition of revolutionary literature and art cultivated in the revolutionary base areas during the war. It was just because we followed the spirit of the "Talks" that we came to understand that there is plenty of room for us in the literary and art fields in Shanxi to fully develop our talents as long as we carry on and develop these two traditions.

Shanxi Province, located in the Huang He valley, is one of the Chinese nation's birthplaces. Its national culture is of ancient origin and long development and its folk culture and art is particularly colorful. Shanxi is well-known as the birthplace of folk song and dance and the cradle of traditional opera. The history of literature and art and the law of its development tell us that literature and art can be separated from neither its people's customs, feelings, or language, nor from the nation's developing history. Only with its own national form and style

can literature and art possess real vitality. The greater the nationalism, the greater the globalism. The fine literature and art with national or folk characteristics handed down to the present is not only the reflection and description of peoples' lives at that time but even an indispensable part of peoples' lives today as well. Writers and artists not only can gather materials for their creation and derive literary and art nourishment from it but also sense the people's vigorous spirit in making history. Today, we must continue adhering to the orientation of "serving the people and socialism," inherit the legacy of all fine literature and art, and critically assimilate all that is useful for reference in our literary and artistic creation. This is not only the way for making socialist literature and art prosper but also an important principle expounded by Comrade Mao Zedong in his "Talks." Inheritance is for innovation. Inheritance and reference can never be a substitution for our own creation. This is also an important idea forwarded by the "Talks." Therefore, we have been encouraging our writers and artists to carry on and develop the fine tradition of our national culture while fully reflecting the spirit of the socialist era and to have our feet firmly planted in our own land while unhesitatingly assimilating the fine results of the world literature and art. This should become the common objective in our endeavor to bring out excellent literary and artistic works. These literary and artistic works should be characteristic of the inheritance and transcend tradition, and be recognized and welcomed by the new masses and the new era of today. Large numbers of talented writers and artists with high aspirations have deep-founded roots in this yellow land, cultivated assiduously on the fertile land of literature and art with rich national and folk traditions, and thus achieved a splendid harvest. The folk song and dance drama "The Sons and Daughters of the Huang He" and the full-length folk dance series "Huang He! Oh, This Land" created and performed by the Shanxi Song and Dance Troupe were generally acknowledged as the best works in carrying forward our national culture of excellence.

The two literary and artistic works with their pronounced national style and local gracefulness as well as the distinctive features of the age were well received by the audience and became famous both at home and abroad. In the national folk song and dance contest of 1986, our province's 12 shows, such as "The Eve of the Lantern Festival," "The River Water" and "Grind Rice With a Pestle and Mortar," were all awarded a prize. Shanxi's local operas continued their development in innovation and a large number of new operas were staged. The creation and performance of the modern opera has, in particular, brought new life to this old artistic form. In the last few years, more than 150 modern local operas were created and performed in Shanxi. Among them, operas such as "The Veteran Eighth Route Army Man," "Tears of Suona," "The Dissolute Father and Son," and "Two Women and One Man," were popularly welcomed by urban and rural audiences and even selected to be performed in Beijing. Nine of our actors or actresses were granted the "Plum

Blossom Award" for their performance in the national local opera contest, and three other performers and directors were awarded the "Wenhua Prize" by the Ministry of Culture, thus showing the real strength of Shanxi's traditional opera circles. The television drama series "Yang Jia Jiang" produced by the Shanxi Television Station was equally well received when shown on the Central Television Station. What is particularly exciting is that these achievements by professional literary and art circles have greatly stimulated and promoted the popularization and raising of standards of mass literature and art. Folk arts such as folk songs and folk music, painting and paper-cutting, gongs and drums, stilts and yangko dances, puppet shows and shadow plays, colored lanterns and other local dramas, all have a long history and profound foundation among the masses. All these folk arts have reappeared in their elegance in recent years while the mass creating and performing activities are very colorful and active. These activities were shown on TV programs, performed in cities or even staged as an international cultural exchange. The Shanxi Folk Art Ensemble first visited Japan, then Belgium and Holland. The folk Qingmiao music, puppet show and shadow play, gongs and drums, traditional operas and cultural relics, colored lanterns and modeled dough were time and again invited to be performed or displayed in countries and regions such as Britain, the United States, Canada, France, Germany, Japan, Singapore, and Hong Kong. During the 1990 Asian Games held in Beijing, the performance of the Taiyuan Gong and Drum, Jinnan Weifeng Gong and Drum, Jiangxian Flying Dragon Troupes at the opening ceremony, as well as the Shanxi colored lantern show "The Light of the Coal Mines," were all highly praised for their dazzling brilliance. Since 1987, we have successfully held three folk art festivals in Shanxi. In 1991, we held an international gong and drum festival, spreading Shanxi folk art's influence both at home and abroad.

Shanxi is a red land with a glorious revolutionary history. When the anti-Japanese war broke out, the General Headquarters of the Eighth Route Army and its three main divisions crossed the Huang He and marched to the front. They penetrated the enemy's rear area and established base areas behind enemy lines. The three main base areas—the Shanxi-Chahar-Hebei, the Shanxi-Sui, and the Shanxi-Hebei-Shangtong-Henan base areas—took up more than 70 percent of Shanxi's land. The base areas not only made great contributions to the victory in the anti-Japanese war and the Chinese revolution but also nurtured large numbers of revolutionary writers and artists and initiated a new custom in the history of Chinese literature and art. The writers and artists of the base areas took up their revolutionary literary and artistic work under the direct guidance and the edifying influence of the "Talks." They conscientiously adhered to the orientation that "literature and art should serve the masses of the people and, above all, the workers, peasants, and soldiers." They maintained a flesh-and-blood tie with the masses of the people and resolutely plunged into real life. They kept the national

and popular styles in their creative work and brought revolutionary changes in both form and content to our literature and art, thus forming a unique style and creating a new atmosphere in the literary and artistic circles. Writers in Shanxi, such as Zhao Shuli, Ma Feng, and Xi Rong, all made outstanding achievements. They wrote lots of fine works that are very popular among the masses and were very well received by the readers. Their works profoundly influenced Shanxi writers for generations. We believe that it is another great advantage in the development of our literature and art to carry forward and develop the fine tradition of the base areas' revolutionary literature and art. We expect our writers and artists of the younger generation to firmly adhere to the orientation pointed out by the "Talks," to follow the correct road of the old generation, and to take as their required course plunging into the thick of life and obtaining a deep understanding of our society. They should take nationalization and popularization as their conscious pursuits and steadfastly serve the needs of the masses of the people and of the new era. They should also pay attention to the social function of literature and art as well as the social impact of their work and strive to express the spirit of the socialist era. In the last 10 years or more, a large number of veteran writers have been as talented and energetic as before and great works kept appearing in succession from their productive hands while a great army of young and middle-aged writers appeared as the new stars in the literary sky, and profound writings came from their gifted minds. They have now formed a world of their own with enormous creative potential, and were thus honored by the literary and artistic circles as "the rising of the Shanxi Army." Most of their works are a reflection of real life, especially the life of the countryside, showing that they have a profound understanding of real life and a great concern for the reform and opening up of China to the outside world, today's trend. Over 60 literary works from Shanxi have been granted national awards, making Shanxi one of the provinces whose literature has a nationwide influence. In film and TV drama, there are also many good works with reform and real life as their themes. Films, such as "Our Ex-Servicemen" and "Women of the Yellow Land"; and TV dramas, such as "New Star," "The Sun Rises From Here," "Ge, the Shop-Keeper," "There Is Such a Policeman," and "Good Man Yan Juqian," have made a great impact on the audience and some of them have even won national prizes. In traditional opera circles, there are such outstanding literary and art organizations as the Meihu Opera Troupe in Linyi and the Xiangyuan Yangko Opera Troupe that have been writing and performing for the masses in rural areas for decades. In the literary and artistic leading posts at the grass-roots level, there are such good cadres as Comrade Pengyi, the chairman of the Modern Drama Troupe in Shanxi, who was honored as "Jiao Yulu" on the literary and art front for his great success. The party and government praised and rewarded them for their work. What should be particularly mentioned here are the 18 TV dramas. We took Shanxi's glorious revolutionary history as the main topic of our creation and gathered all our strength in

personnel, material, and finances to accomplish 18 dramas of 117 series. They epically reproduced on the screen scenes of the Chinese revolution led by the party within Shanxi. Among them, dramas, such as "The Shangdang Campaign," "Madame Mei," "In the Face of a Formidable Enemy," "The Xinkou Campaign," and "The Great Victory in Central Shanxi," won national or Northern China awards for TV dramas. All these literary and artistic works have served as a vivid education for the masses of the people in learning revolutionary tradition, patriotism, and historical materialism, and had very good social results.

II. "Talks" Guide Us in Following the Law of the Development of Socialist Literature and Art and in Properly Handling Some Important Relations in Our Literary and Artistic Work.

In his "Talks", Comrade Mao Zedong not only pointed out the orientation that "literature and art should serve the masses of the people, and above all the workers, peasants, and soldiers," but also expounded, on the question of how to serve, some important characteristics and laws in developing revolutionary literature and art, with the real situation of literary and art work in Yan'an and other base areas at that time. His teaching is still important in guiding the literary and artistic workers of today.

Literature and art is the reflection of our social life and life is the only source for literary and artistic creation—this is the famous thesis Comrade Mao Zedong forwarded in his "Talks." The relationship between this creation and life is always of great importance concerning the prosperity of literature and art. From my point of view as a leader in literary and artistic work, whenever we helped our writers and artists appropriately solve this problem, a lot of talented and profound works appeared in the literary and artistic fields. Whenever this problem was not properly handled, there was bound to be a deep silence in the literary and artistic world. As far as the writers and artists are concerned, this problem is even more directly related to their professional lives. In the last few years, we experienced this problem's challenge. For a time, the literary and artistic circles were affected by the Western trend of thoughts such as irrationalism and formalism. Under this influence, some literary works were enthusiastic in expressing "ego" or the so-called "subjective reality" and in depicting "sub-consciousness" or the so-called "life impulse." They simply went for the art's form, structure, and rhetoric, paying little attention to content of thought and the social function of literary works. This trend of thought did lead some of our writers to such drawbacks as idealism and dogmatism, unrealistic thinking and empty talk, looking down upon practice and becoming distant from the masses, etc., which were criticized by Comrade Mao Zedong in his "Talks." This trend also hindered our efforts to encourage writers to go deep into the realities of life. In view of this, we repeatedly stressed the importance of teaching that writers must go deep into the realities of life and paid much attention to the

veteran writers' leading role in teaching and helping the young writers. We also proceeded to create conditions for the writers to go deep into real life. We arranged for young and middle-aged writers to go in separate batches to take leading posts at the grass-root levels to observe and learn from real life. A great majority of Shanxi writers were able to stand up against the interference and adhere to the principle of realism in their literary creations. They took pride in learning from real life and based their writing on life—this has become a very important reason for the achievements in Shanxi literature and art.

How to properly handle the relationship between the main theme and diversification is also an important issue in our current literary and artistic work. To reflect our socialist era's spirit is the main theme in our literary and artistic creation, which is decided by the basic orientation that literature and art should serve the people and serve socialism. Our people are now, under the party's leadership, engaging in the lofty cause of building socialism with Chinese characteristics. To fully portray the masses of the people in the thick of their struggle as well as their attitudes, to praise their brilliant achievements and kindle their enthusiasm for socialism, to depict and cultivate the socialist new man, and to promote the masses of the people in making history are not only the unshirkable duty of our literature and art but also the most important and urgent demand of the broad masses for our literature and art. If we fail to do this, what are we going to say to the people? That is why we placed special emphasis all these years on the creation of literary and artistic works with the main theme. A great number of influential works created by our province's literary and artistic circle are mostly the depiction of real lives. We also believe that we should emphasize works depicting major revolutionary and historical events, as they are of direct and unique importance in educating the people today and in cultivating the socialist new man. Naturally, the spiritual demands of the masses is diverse. To this end, any literary or artistic work that educates, enlightens, entertains, or pleases the people should have their respective places in the socialist literary and artistic camp. We not only need diversification in art form or style but also diversification in subject matter or main topic. Instead of conflicting with each other, the emphasis on the main theme and the encouragement in diversification should jointly contribute to the prosperity of literature and art.

The relationship between the popularization and the raising of standards is still a basic problem for the prosperity of socialist literature and art. By popularization, we mean familiarizing the masses with literature and art that suits the people's needs and is easy for them to understand. By the raising of standards, we mean to raise standards in the direction that the people are advancing. The raising of standards should be at the foundation of popularization, and popularization should occur under the guidance of the raising of standards. Popularization and the raising of standards are a dialectical unity in which they condition and improve each

other. These fundamental principles expounded in the "Talks" are what we must continue adhering to today. Meanwhile, it should be noticed that the cultural level of the masses of the people and their ability to take in art are much higher than that during the war in the base areas. Naturally, the people have a high demand for the popularization and raising of standards. From this new reality, on the one hand, we encouraged writers and artists to produce fine works and fostered the talented as vanguards in literary and artistic creation. This is not only a basic sign but also an important guarantee for the prosperity of literature and art. In recent years, Shanxi's literary and artistic circles have brought forth a large number of influential literary works and fine arts. In some of the branches, literary and artistic workers are now beginning to have their own leaders in professional pursuits and some talented groups have emerged. All these show a clear raising of standards of the province's professional literary and art circles. On the other hand, we organized the literary and artistic workers to go deep into the countryside, factories, mines, school campuses, and military camps to help and guide the masses to develop their own literary and art activities. Some professional achievements such as "The Sons and Daughters of the Huang He" and "Huang He! Oh, This Land" not only elevated and helped refine the public "taste" but also became a model imitated enthusiastically by the masses in their own literary and artistic activities. At the same time, we created conditions for fine works of mass literature and art to be shown on TV or performed in Beijing and other provinces or countries. This has played a noticeable function in making mass literature and art flourish. The mutual promotion between professional and mass literature and arts thus formed a benevolent circle for the development of literature and art. Stressing both rectification and prosperity in literature and art is an important policy forwarded by the Central Committee since the Fourth Plenary Session of the 13th CPC Central Committee. We realized that this policy's implementation was not only made to bring about a radical change in the abnormal situation that once appeared in the cultural and ideological circles, but also the demand of objective law in the development of socialist literature and art. In the literary and artistic sphere, the expression of the true, the good, and the beautiful can exist only when compared with the false, the evil, and the ugly, and can develop only in their mutual struggle. Without contradiction and struggle, there can be no development. Therefore, this struggle will never end—this is the law of the development of literature and art. Our task in the days to come is to strengthen our control over the cultural market while developing and promoting the prosperity of our socialist literature and art. We should not allow things that could poison the people, pollute society, and oppose socialism to run rampant. Socialist literature and art should take firm control of the literary and artistic front and promote prosperity in our cultural affairs. While emphasizing rectification and prosperity, we must always focus on literary and artistic creation and on prosperity and thus achieved noticeable results. As for bourgeois liberalism's influence on literary and

artistic circles, we eliminated it mainly through ideological rectification. We took a firm stand in clearing out cultural and ideological filth.

III. Fully Implement the Party's Policies Concerning Literature and Art, and Strive To Create a Favorable Social Environment for the Prosperity of Literature and Art.

Since the Third Plenary Session of the 11th CPC Central Committee, the party Central Committee has taken firm steps to bring order out of chaos and to realistically sum up both the positive and negative historical experiences in developing socialist literature and art. According to the reality of literary and artistic work in the historical period, the Central Committee has also emphatically pointed out the orientation that "literature and art must serve the people and socialism" and formulated a series of general and specific policies. Having adhered to and developed the fundamental spirit of the "Talks," these policies gave a more accurate expression of the people's demand today for literature and art. They faithfully embodied the objective law of the development of literature and art in maintaining and improving the party's leadership of literary and artistic work. More than a decade's practice has fully proved that our party's literature and art policies are correct and effective. We owe all our achievements to the overall implementation of the party's literature and art policies. A very important problem in fully implementing the party's literature and art policies is to keep the stability and continuity of our policies. In the last 10 or more years, supported and protected by these policies, vast numbers of literary and artistic workers freed themselves from old ideas and gave full play to their intelligence and wisdom, thus liberating once again the productive force in literature and art. The road for us in literary and artistic creation is become broader, so we should value this hard-won situation very greatly. However, the bourgeois liberalism rampant a few years ago did inflict much damage to our literary and artistic work. A handful of people set the policy of "letting a hundred flowers bloom and a hundred schools of thought contend" against the Four Cardinal Principles in an attempt to deviate from the orientation of serving the people and serving socialism. After the Fourth Plenary Session of the 13th CPC Central Committee, in line with the important plan drawn by the Central Committee, we earnestly and systematically eliminated the influence of bourgeois liberalism in literary and artistic circles. We thought it was absolutely necessary for us to figure out what was right and wrong, sum up experience, and draw our own lessons through criticism and self-criticism. Our purpose was to further promote the prosperity of literature and art. We should never give people the false impression that we are changing our policies concerning literature and art or taking the road back. Shortly after the political disturbance in 1989, we held a forum with young and middle-aged writers. Provincial leaders came to the meeting, exchanging ideas and holding heart-to-heart talks with us. Proceeding from the province's actual conditions, the

provincial party committee comprehensively and realistically analyzed and evaluated Shanxi's literary and artistic work. The provincial party committee fully affirmed the achievements and principal aspects of our literary and artistic work and said that it was not allowed to totally negate previous literary achievements and the great majority of writers simply because one or two people in our ranks committed mistakes during the political disturbance. At the same time, the provincial party committee pointed out in all earnestness the existing problems, leading us to bear firmly in mind the lesson, dispel our worries, and unite while marching ahead. The writers were greatly moved by the provincial party committee's sincerity, which not only helped some of our comrades get rid of unnecessary worries and heightened their spirit but also played a very important role in uniting our comrades and arousing their enthusiasm. It is generally believed that the provincial party committee took a firm stand in implementing the party's literature and art policies, thus avoiding instability and deviation in implementing the policies and achieving a good result.

The party's literature and art policies have expressed that we should obey the law and value talent in developing literature and art and try our best to create a social environment favorable to the production of talent and to fine works. Comrade Deng Xiaoping once said, "Literature and art, as a complicated mental labor, very much needs our writers and artists to give full play of their creative spirit. What to write and how to write can only be explored and solved gradually by our writers and artists in their own practice. In this aspect, there should be no unreasonable interference." As we understand it, a very important point in his words is that we should properly handle the relationship between the leaders and the writers and artists. We maintained that leaders should exchange their views with writers and artists on an equal footing instead of only giving orders. It is wrong for a leader to recklessly say which piece of work is good or is not, simply because he likes or dislikes it. It is even more wrong for a leader to say who should be supported and who should not in terms of his relationship with the writers or artists. Leaders may have their own views on literature and art, but their views should not be used to settle differences or disputes in literary and artistic circles. Leading cadres should avoid becoming involved in old resentments or parochial prejudice, which is principle. Instead, they should improve coordination and unity among writers and artists and help them seek the common ground while holding their differences. We think highly of famous writers or artists, but we have given more attention to cultivating and supporting our new writers and artists. We give honors and awards equally to all who have made outstanding achievements. A piece of literary and artistic work does not make the success or failure of a writer or an artist. One mistake about one thing at one time should not be used to negate a writer's achievements. Anyone can make mistakes; if he is willing to correct them, we should show our love for and have great faith in him. Anyone anxious to make

achievements is eager to have a good environment and our task is to create an environment and atmosphere of unity, stability, democracy, and harmony so that writers and artists can concentrate on their creative work with an easy heart. Of course, we do not advocate "governing by doing nothing that goes against nature." We believe it is still very important to strengthen the overall guidance in developing literature and art by making plans and implementing them, etc.

We should also try our best to provide the indispensable material conditions for the development of literature and art. This is also a very important aspect in fully implementing the party's literature and art policies. In recent years, Shanxi's cultural and artistic undertakings have made considerable progress in capital construction. We owe this progress to the right policy, the contributed capital, and the realistic attitude of party committees and governments at different levels in the province. The provincial government, while facing financial difficulties of its own, allocated funds to encourage literary and artistic creation and to award outstanding achievements. The provincial government also invested in building up the provincial cultural union's office complex and granted financial support for the production of important literary and artistic works. The construction of culture facilities in cities or towns also has made much progress. Especially in rural areas that have become rich, investment in culture establishments is very active. Urban theaters have achieved remarkable success in raising funds by themselves for renovation and updating. We also coordinated with departments concerned in studying and formulating economic policies that would favor the development of our cultural undertakings. We supported some units in developing their own study and practice in the reform, thus helping them increase their own capability in self-development. This has brought about both fine social results and good economic performance. We are confident of further adhering to the orientation pointed out in the "Talks" and doing a better job in implementing the party's policies concerning literature and art. We should help our literary and art workers prepare themselves for the constant prosperity of our literature and art and raise their own literary and artistic level to produce literary and art works of excellence and to achieve better results in the performing arts. These literary and art works and results in the performing arts should live up to the great expectations of our great people, great nation, and great era, and thereby help Shanxi's literature and art make still greater contributions to the development of the socialist culture edifice with Chinese characteristics.

Openness in Research, Attitude Toward Sex Noted
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[Text] Nanjing, August 1 (XINHUA)—In the past, talking about sex in public could be considered as being mad or even being a hooligan.

The ice was not broken until the early 1980s when some Chinese researchers dared to ride the reform and opening wave by publishing a number of academic works on sex.

In the past decade, China's academic circle has made marked academic achievements in the field, according to some officials who are preparing to set up a national society on the study of sex.

The officials disclosed that currently the country has almost 1,000 scientists specially working on the research that covers sex-medicine, sex-psychology, sex-sociology and venereal disease.

On the other hand, they said, more and more ordinary people are eager to know the once-mysterious subject, and in 1985, when the country's first lecture course on sex was held in Shanghai, several thousand people flocked to the classroom.

Since then numerous classes and exhibitions on the same topic have been held across the country.

Liu Dalin, an expert on the study, recently told XINHUA that as the age of being mysterious and innocent about sex has passed, Chinese people are now seeking a more healthy and civilized sex.

At present, academic research organs on the subject have been established in eight provinces and municipalities including Shanghai, Beijing, Heilongjiang, Guangdong, Jiangxi and Anhui. Meanwhile, a couple of specialized magazines have been published.

From 1989-1990, two nationwide surveys on "sex civilization," which were conducted in 15 big cities and on 240 items, have largely turned the country's research on sex into a mature stage.

The results of the surveys will be made public in the book "On the Sex of Chinese people" which will be published within this year, according to the professor.

In the past few years, a number of books including "The Grand Dictionary on China's Study of Sex" and "Sex in Ancient China" were published.

Since the mid-1980s, China has made great efforts to popularize concerned knowledge among its people and it has been expanded from the cities to rural areas.

Special classes on sex have been opened in 26.7 percent of colleges in the country, while a survey shows that 87.93 percent of college students want to take such a course.

The education on sex for middle-school students has also been started since 1988 on a trial basis and now over 7,000 middle schools have taken part in the experiment.

In the future, all middle schools will open the same class as a training program to train enough teachers. Such a

class has been underway in Shanghai and some other big cities. In the meantime, related textbooks have been compiled.

Professor Liu noted that the rapid development of China's academic study on sex is related to the emergence of a large amount of social problems regarding sex education for children and youngsters, love and marriage, husbands and wives, premarital sex, venereal diseases and sex-related crimes.

According to Liu, in China, the study originated from sex-medicine, then went forward along with the development of family-planning, and has finally mounted a new stage through the formation of sex-sociology in the country.

Now, China has approached the world level in this field, the professor said.

By September this year, Shanghai will host an international meeting on the study of sex.

Development Rights Seen as Major Human Right

92CM0358B Beijing BEIJING SHIFAN DAXUE
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[Article by Lian Baojun (3353 0202 0689) and Meng Mingqi (1322 7686 2978): "On Development Rights Problems in Human Rights"]

[Text] Human rights are the totality of man's rights in all regards and cover an extremely broad area. The right to develop is a major aspect of human rights. This article takes up some basic problems in the right to develop, offering some cursory views.

1. The Right to Develop Is Rooted in History

Human rights concepts and theories are an outgrowth of contemporary capitalist economic relationships. From the time they emerged until the present day, they have gone through a historical process of constant development and constant perfection. As a major aspect of human rights, the right to develop has been recognized in law. This was an outgrowth of the constant development of human rights.

History recognizes the human rights view that John Locke explained in his *Two Treatises of Government*, as being the first fairly completely systematic theory of human rights. For the first time, he explicitly put forth the proposition that liberty, equality, and property rights are sacred and inviolate "human rights," and that the democratic principle of sovereignty reposes in the citizenry, thereby laying the groundwork for the human rights theories of the bourgeoisie. Jean Jacques Rousseau took the theory of human nature as his point of departure for the preparation of a great compendium of

bourgeois human rights doctrines, which completely and systematically set forth "God-given human rights" and social contract theories.

Locke's and Rousseau's human rights theories reflect in a concentrated way the needs of the newly emerging bourgeoisie's development of a capitalist commodity economy. They embodied the efforts of the bourgeoisie to overturn completely feudal autocratic rule, and its strong desire to win an independent political status and authority. After the bourgeoisie achieved victory in revolution, it acknowledged and consolidated these human rights concepts and theories in law, making them into legal principles of the bourgeoisie.

After capitalism entered the final stage of imperialism during the late 19th and early 20th centuries, the high tide of the world proletarian revolution and the national emancipation movement gradually demolished and developed traditional human rights concepts. On 10 December 1948, the United Nations Assembly passed the *World Human Rights Declaration*, which not only included the content usually set forth in the constitutions of bourgeois states, such as the political and economic rights of individuals, but also added social and cultural rights. This symbolized the emergence of the human rights issue as a world issue and an international issue. In 1960, the UN General Assembly passed the *Declaration of Independence of People in Colonial Countries*, which listed the right to national self determination as a basic right. This marked a major advance in human rights concepts in that collective human rights were explicitly acknowledged. In 1966, the UN General Assembly passed the *Civil Rights and Political Rights Convention*, and the *International Convention on Economic, Social, and Cultural Rights*. While affirming traditional individual rights, the aforementioned declarations and conventions emphasized and developed the content of collective human rights such as the rights of nationalities. China's government believes that these conventions "enriched the economic, social, and cultural content of human rights, and had a major influence on the safeguarding of national sovereignty, realization of the right to expression, and the establishment of a new international economic order, becoming the main current in contemporary human rights theory and practice."

Since the end of the 1960's, development rights have gradually been placed on the human rights agenda, and have become the topic of numerous proposals. Freedom of development has been largely an outgrowth of the opposition of socialist countries' and other Third World countries' to colonialism and racism, and opposition to developed capitalist countries' looting, meddling in, blockading, and issuing sanctions against developing countries. Out of their own self-interest, developed capitalist countries use their political, economic, and cultural power to commit aggression against, meddle in, and exploit small, and weak countries. The international political and economic systems that they have built seriously hamper the development of developing countries. Thus, developing countries have waged much

arduous struggle in which they have won preliminary victories. Consequently, the process of obtaining the recognition that the right to develop is a basic human right is closely associated with national self-determination. On 11 December 1969, the UN General Assembly passed the *Declaration on Social Progress and Development*, which explicitly declared that "national independence based on the people's self-determination" is a primary requirement for social progress and development. At the opening ceremonies of the Strasbourg International Association on Human Rights in 1972, Kaiba Mubeiye [transliteration], the first chief justice of the Senegal Supreme Court, the deputy chairman of the International Association on Human Rights, and member of the United Nations Human Rights Commission made a speech that set forth in a systematic way for the first time the right to develop as a human right. On 16 December 1977, the UN General Assembly passed the "Resolution on New Human Rights Concepts," which explicitly proposed the ideal of "the right to develop." The resolution said that "long-term progress in the realization of human rights requires a sound and effective national and international economic and social development policy." (*Shijie Renquan Yue Fa Zonglan* [Overview of World Human Rights Conventions and Laws], Sichuan People's Press, 1990, p 991). The unequal positions of developed and developing countries in the international economic field, particularly the continued existence of an unequal international economic order in which the latter has been economically exploited by the former, "creates the main barrier to developing countries' realization of economic, social, and cultural rights." (idem, p 990). Therefore "a new international economic order is a necessity for the effective promotion of human rights and basic freedoms; it must be given priority." (idem, p 991). *Resolution on Development Rights*, which the UN General Assembly passed on 23 November 1979 regarded the right to develop as an inalienable human right. It maintained that equal development opportunities are the special right of all nations and individuals. Since 1981, China has participated in all meetings of the government experts group of the United Nations Human Rights Committee for the drafting of the *Declaration on the Right to Develop*, which has done much work in establishing the right to develop. On 4 December 1986, the "Declaration on the Right to Develop" was formally passed by the UN General Assembly the right to develop becoming a sacred collective and individual right.

2. Basic Substance of Development Rights

Article 1 of the "Declaration on Development Rights" says that "the right to develop is an inalienable human right. As a result of this right, every individual and the people of all countries have the right to take part in, promote, and enjoy economic, social, cultural, and political development. In the course of this development, all human rights and basic freedoms can be fully realized." (idem, p 1365). It also says that "people's right to

develop means full exercise of national self-determination, including ... inalienable, complete sovereignty over all their natural resources and wealth." (idem). It makes clear that the right to develop "is a right of the individual to benefit from and take part in the development process and is based on the satisfaction of mankind's material and non-material needs, and also a collective right of developing countries (as well as of all peoples who have not yet realized self-determination) for the successful development of a new international order that both eradicates inherent structural barriers in modern international economic relations that obstruct their development." ("Declaration of Human Rights," Qiushi Press, April Edition 1989, pp 168-169). Obviously, the right to develop applies to both individual human rights and the collective human rights of nations and peoples. On a global scale, the right to develop is first of all a collective right, the individual right to develop depends on obtaining the collective right to develop. When a nation is occupied by an aggressor, when the people's self-determination is usurped, the nation's sovereignty is trampled upon, the people are placed in the position of slaves, and the sovereignty of both the people and the nation is lost, what individual freedom and rights are there to talk about! When a nation is deprived of its right to allocate its natural resources independently and freely and develop its national economy independently, and when it is subject to economic exploitation and looting from outside, the development of the individual can also be only an illusion. Only when a nation and a people first attain political sovereignty and the sovereignty to develop their economy, culture and society independently can the prerequisites and conditions for development of the individual exist, and it is also only on this basis that individual active participation can serve as an impetus to the development of his or her own nation and people. The contrast between the new and the old China provides the best testimony of this.

The individual's right to develop may be understood to be the sum total of internationally recognized individual rights, particularly the right of individual participation in economic, cultural, and social development as well as the right to enjoy the fruits of this development. As a collective human right, the right to develop consists mainly of each people's right to economic self-determination, particularly the right of developing countries and peoples who have not yet attained self-determination to rid themselves of an international economic order that poses a stumbling block to their people's economic development and the right to build a new international economic order. During the 1950's and 1960's, progress in de-colonization was concentrated largely on the winning of political sovereignty, the right to economic, social, and cultural self-determination being relatively ignored. Actually, unless political sovereignty is linked to the independence of economic development, it will become a false sovereignty. Therefore, the concept of development rights must be embodied in

a people's full realization of the right to develop in the political, economic, social, and cultural realms.

Concretely speaking, the right to develop includes primarily the following several aspects:

1. Right to Life (Existence) and Development. This includes the right of individuals to exist and to develop, and a nation's and a people's right to exist and develop. Every people has the right to continue to exist and to constantly develop his or her own physical form and spiritual form; all nations and people likewise have the right to develop their nation's and people's ability to exist and the quality of existence within their own space-time continuum. The "Declaration of the Right to Develop" explicitly states that "People are the active element in development; therefore, people must become active participants and beneficiaries of the right to develop." (*Shijie Renquan Yue Fa Zonglan*, p 1365). No distinction of people on the basis of race, sex, language, religion, and political belief exists here, and in the right to develop, every nation is equal without regard to size or strength. The conventions that the UN General Assembly passed regarding the prohibition and elimination of slavery, as well as the selling of slaves, and the declarations and conventions it passed on the protection of women, children, and youth, etc. are affirmations of the right of people to exist and develop. Human rights conventions and laws regarding a people's right to self-determination, sovereignty over natural wealth, and the right to develop are also an affirmation of a people's right to exist and develop. Therefore, any form of racism is not permitted and is a contravention of the basic principles of human rights, and no country may carry out aggression against, loot, or interfere in the internal affairs of another country on any pretext or for any reason.

2. The Right to Political Development. For the collective, the right to political development means that a nation or a people has the right, as specific circumstances in its own nation or among its own people warrant, to elect the political system and political institutions that suit its own national circumstances; and it has the right to select its own future course of political development. It means, in addition, that no other country has the right to force its own political concepts, institutions, or social system on another country. The *Development Rights Declaration* specifically states that the right to self-determination of the people of all nations permits them "the right to freely decide their political position." (idem, p 1,365). For the individual, the right to political development means the political right to develop as legal citizens, including the right to elect or be elected, and the right to freedom of speech, to form organizations, to assemble, freedom of the press, and of political persuasion.

3. The Right to Economic Development. The right to economic development is the key ingredient in the right to develop. For people in the majority of developing countries, this is also the most urgent human rights issue.

The gap between rich and poor in the developed and developing countries is growing ever wider, and even though some countries have won national self-determination, their economic development remains slow. One third of the population of developing countries still lives below the poverty line. China pays exceptionally close attention to development rights problems, and calls upon the international society to pay attention to and be concerned about the development rights issue in developing countries. It calls for active and effective measures to be taken in an effort to eradicate unfairness and unreasonableness in the world economic order, to take effective measures to improve the international economic environment, to moderate and gradually eliminate elements unfavorable to the development of developing countries, and to build a new international economic order. It calls for the eradication of factors interfering with the right to development such as racism, colonialism, hegemony, foreign aggression, occupation, and meddling to create a favorable international climate for the realization of development rights.

As an individual right, economic development confers on every individual the right to take an active part through his or her own labors in the internal economic activities of his or her own nation, people, and on a world scale. It also confers the right of each individual to enjoy the benefits of economic development. This is a basic material prerequisite for satisfying the needs of the individuals' material life and supporting the development of the individual. Individuals' economic development rights are both the right to work and the right to enjoy the fruits of labor. They are a unity of creation and enjoyment.

4. The Right to Cultural Development Every people and nation has its own distinctive cultural and historical traditions. The right to cultural development confers on them the right to carry on, transform and develop the culture of their own people and their own nation. They have the right to develop their own distinctive cultural forms and cultural framework by carrying them to greater heights, strengthening, absorption, disintegration, substitution, loss, or conjugation. They have the right, on the basis of their own national cultural traditions and actual choices, to take whatever actions are necessary to preserve, develop, and preserve scientific and cultural knowledge; they have the responsibility to provide indispensable freedom for scientific research and creative activities; and they have the duty to encourage and support international scientific and cultural contacts and cooperation, and to insure that everyone in their own country has the right to be educated.

5. The Right to Social Development. The right to social development is extraordinarily broad in content. It includes labor employment, sanitation and health, environmental protection, protection of the rights of women, children, and young people, religious beliefs, etc. The state has a responsibility for taking proper steps to ensure its citizens the right to the opportunity to make a

living in freely selected and accepted work. These steps include technical and vocational guidance and training, as well as ensuring the attainment of economic, social, and cultural development, and full production employment plans, policies, and skills, while ensuring basic political and economic freedom for the individual. Every individual has the right to fair and good work conditions; the rights and benefits of women, children, and young people must be protected; people have the right to enjoy a sanitary environment; the state must take actions to prevent various diseases, and to create conditions that will insure that the people receive medical treatment and care when they are ill.

All of the content of the abovementioned development rights are inseparably linked; no single aspect can be emphasized at the expense of another. Naturally, under different historical conditions, it is all right to emphasize some components as battle objectives for a historical period; however, the content of development rights must be viewed as a totality and attention must be paid to the limiting role among all aspects.

During the past decade or more, the development rights concept has permeated every realm of social life, and has gained widespread international approval. It has done away with the narrow framework of traditional Western human rights concepts with the result that human rights are no longer purely individual human rights, but are increasingly collective rights. This development fits in with requirements and the present state of international socio-political and economic development. From one angle, it reflects the mainstream of progress and the historical features of this age; thus, it merits affirmation. In the right to develop, China has made great accomplishments that have attracted the attention of the world. Tremendous development has occurred in politics, economics, society, and culture. These are great achievements that all can see and that every Chinese deserves to be proud of.

3. Adherence to the Marxist View of the Right to Develop

On the development rights issued as on other human rights issues, only adherence to the Marxist point of view can product a correct understanding.

Marx said: "Legal rights relationships are relationships of will that reflect economic relationships. The content of these legal rights relationships or will relationships are decided by these economic relations themselves." (*Complete Works of Marx and Engels*, Vol 23, p 102) The rise of development rights are inherent requirements and a reflection of the socio-economic development of the modern world, and these are the "natural human rights" that science cannot explain. The bourgeoisie is accustomed to being the spokesman for all mankind in preaching human rights that transcend class, nations, and peoples, and they even raise this banner to meddle in the internal affairs and human rights of other countries, thereby exposing the falseness of their human rights. In contrast, the Marxist human rights concept happens to

discuss human rights issues in terms of recognizing that political, economic, and cultural factors in society (meaning economic relationships in the final analysis) play a role in limiting human rights. In his *Criticism of the Gotha Program*, Marx said that "rights can never transcend a society's economic structure as well as the social and cultural development that the economic structure imposes." (*Selected Works of Marx and Engels*, Vol 3, p 12), meaning that one cannot talk glibly about human rights without regard for economic development, the cultural state, and the historical traditions of society. On the issue of the development of rights, there can be no doubt for the need to adhere to this basic view of Marxism.

It cannot be denied that quite a few problems remain in China's human rights concepts and in assuring their realization, and that some problems are still rather serious. Both the party and the government are devoting much attention to this matter, and they are striving to take effective measures to solve them. At the same time, however, we must proceed from reality; we cannot abstractly call for human rights without regard for China's present economic strength and cultural circumstances. In the development rights aspect, for example, no one disagrees that everyone possesses the right to an education. In many out-of-the-way and backward places, however, where neither the economy nor culture is well developed, the people's right to receive an education is limited. China's modernization, enhancing the quality of its people, and the complete development of the individual are all major matters that will brook no delay, but this absolutely does not mean that abstractly shouting several human rights slogans can solve these problems. Anyone who thinks, will usually admit that swift development of the country's economy and an increase in the overall strength of society is needed in order to do this.

The right to develop is intertwined, interdependent, and mutually restricted by political rights and economic, social, and cultural rights. National political independence and national self-determination are prerequisites for the realization of rights in these several regards, and the development of the economy, society, and culture are, in turn, supports for the full realization of national self-determination. Together, they constitute the concrete content of the development rights of a country, a nation, and its people.

On the development rights issue, adherence to the unity of collective human rights and individual human rights must be the emphasis, because this is actually a reflection of the relationship between the individual and the collective on the human rights issue. On this issue, Marxism adheres to the unity of collective human rights and individual human rights based on a scientific understanding of man and his nature. Marx said: "Man does not dwell abstractly outside the world. People live in a human world, which is their nation and society." (*Selected Works of Marx and Engels*, Vol 1, p 1) This is because "man is an animal in fact as well as in name. Not only is he a gregarious animal, but an animal that can be

independent only in society." (*Selected Works of Marx and Engels*, Vol 2, p 87). Thus, "man's nature is by no means an abstraction that is innate in an individual. In reality, it is the sum total of all social relationships." (*Selected Works of Marx and Engels*, Vol 1, p 1) Therefore, without social development, individual development is bereft of support. The substance and nature of collective rights prescribes the content and character of individual rights. Man's social character determines that only in society can the individual obtain all that he or she needs. Without collective development rights, individual development rights can only be illusory and fictitious rights. At the same time, so long as collective development rights find expression, only when individual development rights are assured can the collective be fully infused with vim and vigor, and the animus exist for development. Therefore, it is wrong to juxtapose collective human rights against individual human rights.

On the development rights issue, it is also necessary to adhere to the Marxist class analysis standpoint. In a class society, human rights possess a pronounced class character; human rights that transcend class cannot exist. Lenin said: "Until classes have been wiped out, any discussion of freedom and equality must pose the following questions: Freedom for what class? Just how is this freedom to be used? What classes are equal with which classes? In what regards are they equal?" (*Complete Works of Lenin*, Vol 31, pp 354-355). Thus, we must raise the following questions about development rights: Development rights for which class? Obviously, we advocate that rights be given to the oppressed and exploited proletariat and to the free development of far-flung peoples of the Third World. In preceding human rights with the terms "natural" and "God-given," the bourgeoisie's intention is simply to proclaim that human rights transcend class as a means of covering up their class nature, thereby revealing the falseness of its human rights. Since its birth, Marxism has taken a clear-cut stand in defending the rights of the proletariat and the broad masses of working people. It has clearly proclaimed to the public the class nature of its own doctrines. Marx said: "All past movements have been movements to gain benefits by a minority or on behalf of a minority. The proletarian movement is an independent movement in which the overwhelming majority seeks benefits for the overwhelming majority." (*Selected Works of Marx and Engels*, Vol 1, p 262) The socialist society that the victory of the proletarian revolution has built has made the broad masses of working people the true masters in their own house, for the first time enjoying human rights of true equality and freedom. Of course, the ultimate goal of socialism is to realize human rights for all of mankind; however, so long as imperialism exists, only by winning human rights for the oppressed and gaining victory in class struggle can this ultimate goal be attained. Therefore, our emphasis on development rights is, first of all, development rights for the proletariat, and for Third World nations that have suffered imperialist aggression, looting, and exploitation. The international communist movement and the

struggle of Third World nations against imperialism, colonialism, and hegemonism have shaken the international monopoly of imperialism politically and economically. Following World War II, in particular, spurred by the socialist countries, including China, peace and development became the two main themes and the two major human rights of the modern world. This posed a basic threat to the imperialists who rely on warfare and exploitation to maintain their rule. Consequently, they unfurled the "human rights" banner internationally, pretending to be concerned about the development of the people in other countries, but actually engaging in internal meddling to advance their power politics, sparing no effort to protect bourgeois rule and to thwart the independent development of developing countries. Their so-called human rights is nothing more than "special rights" for imperialism and the bourgeoisie.

Today, a restudy of the class analysis viewpoint of the Marxist human rights concepts holds special, real significance for our clear appreciation of the substance of the development rights issue.

4. Development Rights and Man's Complete and Free Development

The renowned American human rights scholar, Steven P. Marx summarized the creative process regarding the international human rights norms of another renowned American human rights scholar, Richard Beard, as follows: "The eternal characteristic of human existence is the existence of human needs. In order to satisfy these needs, we frequently employ the self-help method. If we adopt social restrictions to satisfy these needs, these needs may become a demand for rights. ...legislation is a qualitative social institution for all societies (including international society). Only when the espousal, the value, or the benefits of certain rights are rooted in legislation are they formally recognized." (*Declaration of Human Rights*, p 159). He personally believed that "international human rights are mankind's needs formally acknowledged through grounding in international law." Needs affirmed through legal rights are an important feature of modern society. Of course, to explain the establishment of legal rights relationships solely on the basis of needs is not completely scientific; however, explaining them from this angle can provide us with a very great inspiration. As a result of social practice, human needs develop and change as society develops. They are extremely rich in content. Survival, enjoyment, and development are both three different components of human needs and also express the process of development of human needs from a low to a high level. Examination of the history of development of human rights concepts shows that human rights have gone through a process of transformation from individual human rights to collective human rights, and from political human rights to economic, social, and cultural human rights. This process reflects the trend of change in the development of human society's as well as people's needs. Development rights establish both collective and individual development needs in law as inalienable

rights, thereby providing both collective and individual development with a basis and support in law. Without doubt, this marks an enormous historical advance.

Development rights are collective human rights first of all. The important significance of this proposition lies in its being premised on guaranteeing individual human rights. In other words, the value of development rights as collective human rights lies in providing the social climate, the social conditions and the social support required for the completely free development of the individual. Thus, collective human rights are not an appendage to individual human rights; they possess relative independence. This is because "only in the collective can the individual find full development of his or her talents. This is to say that only in the collective can the individual be free." (*Selected Words of Marx and Engels*, Vol 1, p 82). Both Marx and Engels believed that the goal of communism is for people's completely free development; consequently, they characterized communism as being a "social form based on the complete and free development of every individual." (*Selected Works of Marx and Engels*, Vol 23, p 49). They stated explicitly: "What will replace the old existing bourgeois society made up of various classes as well as class antagonisms will be a partnership in which the free development of each individual provides conditions for the free development of all." (*Complete Works of Marx and Engels*, Vol 23, p 491) In this partnership, "each will be able to develop his her own talents completely without contention." (*Complete Works of Marx and Engels*, Vol 2, p 614). The completely free development of communism and people is the most ambition and finest ideal of mankind. Every advance in human society propels the advance of mankind toward this ideal. The significance of the acknowledgement in law of development rights vis-a-vis the needs of collective and individual development lies in this.

Nevertheless, it must be noted that Marx's theory of man's completely free development proceeded from the criticism and unmasking of the lopsided development of man that the capitalist private ownership system causes; thus, the historical character of man's complete development cannot be ignored. Marx said: "Completely developed individuals, whose social relations serve as their common bond, ... are not natural outgrowths but outgrowths of history." (*Complete Works of Marx and Engels*, Vol 46 (Section 1), p 109), meaning its advent is a historical process. In primitive society, individuals exhibited a kind of primitive completeness because people's production capacity developed only within narrow limits, and because social relationships were extremely simple. They were still a long way from becoming a social power independent of themselves and social relationships in opposition to them. Therefore, "during this stage of social development, rights in a legal sense cannot be discussed."

During this period, people's completeness was primitive, natural, and simple. They were commensurate with

mankind's ignorance and barbarism; they were an indication of the low level of productivity. Furthermore, the self-awareness of primitive man had not yet matured and awakened. They were in no position to make complete development a conscious pursuit, so it was even less possible to talk about the right of development's as a human right in legal rights relationships. Legal rights relationships developed as an adjunct of private ownership, the state, and classes. They are a reflection in the ideological realm of economic relationships determined by the development of productivity. With the entry of human society into the capitalist stage, the bourgeoisie won political emancipation from the shackles of the feudal social system; however, at the same time, the broad masses of the proletariat remained oppressed and exploited. Therefore, Marxism believes that the complete emancipation of man requires the full realization of man's right to freedom, and that the only way in which mankind's completely free development can become possible is to escape from both human subordination to gain political emancipation and to escape from material dependency to gain social emancipation and freedom. Therefore, even though development rights were first won during the 1980's and in developing countries, they are extremely limited in their application to the completely free development of man.

Man's completely free development cannot be truly realized solely through the protection of development rights. As a legal rights relationship, development rights themselves are limited by economic, political, and cultural factors. In addition, the historical nature of man's completely free development also means that they rely on the development of human society that production methods propel. Therefore, it is necessary to proceed from reality, seek truth in facts, and concretely analyze concrete problems for a correct understanding of the significance of development rights on man's free and complete development.

One may firmly believe that communism is bound to occur. "It will provide everyone with healthy and beneficial work; it will provide everyone with an abundant material life and leisure time; and it will give everyone genuinely complete freedom." (*Complete Works of Marx and Engels*, Vol 21, p 570). In this society, "the development of individual creativity and freedom will no longer be an empty phrase." Everyone will "finally become the master of his or own social links, thereby also becoming the master of the natural world, and becoming the master of himself or herself—a free person." Only when that time comes will the rights that development rights confer be completely and genuinely realized.

EAST REGION

Anhui Economic Official Stresses Ideological Work

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[Article by Xu Qing (1776 0615), chairman of the Anhui Provincial Economic Commission: "The Deepening of Reform Calls for Ideological and Political Work"]

[Text] Today reform has become an irresistible and surging historical current in China.

The deepening of reform, transformation of management mechanisms, and the readjustment of the relationship of interests will inevitably affect the personal interests of some individuals. Although the mainstream popular feeling is a yearning for reform, there are some problems in ideology and understanding—problems that need to be addressed immediately. The new situation in reform calls for ideological and political work.

In strengthening ideological and political work on reform, it is essential that leaders at all levels correctly understand and handle the relationship between reform and ideological and political work. A small handful of comrades worry that ideological and political work will "come under attack" again. Such misgivings are unfounded. Ideological and political work is a fine tradition of the party, as well as a guarantee for reform and it cannot be weakened or "attacked" at any time. If we pay attention only to reform and slacken or weaken ideological and political work, reform and opening up will be deprived of a relaxed ideological and political environment, and it could even be impeded or aborted. This is what we should guard against.

In strengthening ideological and political work during the course of reform, we should work hard to change the people's thinking and ideas, and we should enhance their awareness regarding reform. Almost all ideological problems having to do with reform concern the people's thinking, ideas, and consciousness regarding reform. Emancipation of the mind and updating of the people's thinking must come before the deepening of reform. Through studying Comrade Deng Xiaoping's speeches intensively and understanding their essence in the light of ideology and reality, we should get rid of the idea that a planned economy is tantamount to socialism and understand that both planning and the market are economic means. We should do away with the practice of "everyone eating from the same big pot" and the "iron armchair," [guaranteed rank] neither of which manifestations of the superiority of socialism, and foster the concept that the deepening of reform is aimed at harnessing the people's enthusiasm, realizing the principle of to each according to his work, and bring into play the superiority of socialism. We should also eliminate the ideas of following the beaten path and seeking stability out of a fear of chaos, and we should develop the courage to try new things, innovate, and take risks.

In strengthening ideological and political work during the course of reform, we should conduct patient and meticulous education and guidance based on the thinking of different periods and at different levels, and we should guard against oversimplification and generalization. Because of differences in people's position and circumstances, their ability to cope with reform, and the mentality of people in various sectors with regard to reform, we should make painstaking efforts to dispel the misgivings existing in people's minds and understanding. In conducting ideological work, it is necessary to show ample concern for the people, and, especially, to go all out in conducting conscientious ideological work among the elderly and among female workers, as well as among cadres and other personnel who are relieved of work, and to show solicitude for their hardships and helping them solve practical problems.

We must rely on the working class wholeheartedly in reform, in opening to the outside world, and in developing the economy. This is a key factor in determining the success of reform and the extent of the liberation of the productive forces. It is a principle to be upheld in our ideological-political work. Reform and opening to the outside world is the cause of China's working class as well as the cause of its entire people. It is where the fundamental interests of China's working class and its entire people lie. No reform can proceed without the support and participation of the broad masses. Leaders of an enterprise should not regard the masses of workers as targets of reform or as obstacles to reform. Instead, they should view them as the principal players and motivating force behind reform. They should trust the wisdom and strength of the masses, let them know about the goals, targets, and measures of reform, and give them the "key" to carrying out reform. They should uphold the method of work of "from the masses, to the masses" and make reform a conscious act of the broad masses.

To successfully carry out ideological and political work during the course of reform, the most important thing is to strengthen the party's leadership over reform, step up the construction of the party's work style and its leading bodies, and ensure that reform will proceed soundly and positively. We must not regard reform as a job for factory directors and managers alone. Party organizations of an enterprise should participate in and exercise leadership over reform. The three requirements for the leadership structure of the enterprise—namely, bringing into full play the role of the party organization as the core of the political process, upholding and perfecting the factory director responsibility system, and relying on the working class wholeheartedly—must be fully met during the course of deepening reform. We should strengthen the construction of the leading bodies, raise their overall standards, transform them into a unified force in leading the reform, and strengthen their ability to stand the test of reform. We should acquire a correct party work style, insist on handling matters impartially, and guard against the obstruction of reform because of unhealthy practices. In addition to this, we should also enhance our sense of our reform, enact and implement correct policies, and guard against doing things blindly, one-sidedly, or arbitrarily.

Petrochemical Industry's Difficult Position on Taiwan

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[Article by Ch'i Jen (2630 0086): "Can Taiwan's Industrial World Keep Its Key Base?—The Tenuous Position of Taiwan's Petrochemicals Industry"]

[Text] While it was finally announced in late May 1992 that ground would be broken and construction would begin very soon on the mainland Chinese factories to which Taiwan Plastics' six light industries are moving, which plan has been creating an uproar for over three years now, Taiwan Plastics does not seem very elated about it, at least not outwardly. Meanwhile, it was reported in Hong Kong in early June that the PRC has approved the feasibility studies for the Haicang Project. According to Mainland Chinese practice, once feasibility studies are approved, application can be made for official "project establishment." Wang Yung-ch'ing's [3769 3057 1987] response to this is that the approval of both governments should be obtained first, and that waiting a little longer would cause no particular problems. This does not sound like any particular elation on boss Wang's part either. This article will first briefly describe the background of Taiwan's petrochemicals industry development, and then discuss its current macroclimate, to explain the predicament that it is facing.

Taiwan's Industrial Development Pattern

Taiwan's industrial development pattern was a bottom-up one, in which downstream manufacturers were developed first, and after which their necessary raw materials industries were developed. While Taiwan's manufacturing industry began to take shape in the late 1950's and early 1960's, its petrochemicals industry only began to enter its growth stage in the early 1970's.

To promote the petrochemicals industry, which takes a huge investment that is recovered slowly, Taiwan's government provided it with the needed raw materials at U.S. prices through the China Petroleum Company. This was a form of subsidization that will be explained in detail later in this article. On the other hand, it provided a preferential investment climate, including high tariff protection for domestic sales. This means that Taiwan's petrochemicals industry development is based on two foundations, one being a customer complex of mostly downstream manufacturers, and the other being government subsidization and protection, both of which are currently in trouble.

Faced With International Competition

The first problem is that the opening up of trade has lowered tariff protection. Taiwan's petrochemical products are currently taxed at an average rate of no more than 3 percent, so that the opening up of trade is forcing producers to deal with real international competition.

Taiwan's petrochemicals industry's international competitors have long been in America, including the U.S. and Canada, and the Middle East, whose petrochemical products are all basically derivatives of natural gas. Whereas its mid- and short-term competition is coming from South Korea, which expanded its petrochemicals industry 300 percent in the three years from 1989 to 1992, to make it twice as large as domestic need, creating great export pressure. While the most optimistic prediction is that South Korea's petrochemical product export pressure is likely to begin to ease by 1995, the long-range view is that the major pressure on the petrochemicals industry in the Asian Free Trade Zone will come from producers in America and the Middle East whose basic raw material is natural gas. This will be explained below.

Petrochemicals Derived From Natural Gas Are Cheaper

The petrochemicals industry's key raw material is ethylene, which is derived from the two raw materials of light oil (naphtha), which is refined from crude oil, and natural gas. Natural gas's major hydrocarbon components are butane, propane, ethane, and methane. Butane and propane burn at higher temperatures, so are generally used for fuels, being the generally so-called liquefied natural gases (LNG), whose commercial value is basically linked to that of crude oil; while ethane burns at a lower temperature, and is not easily transported due to liquefaction difficulties, so is not usable except in the vicinity of its producing area, and is necessarily lower in price than crude. But naphtha is refined from and necessarily higher in price than crude, so that natural gas is much cheaper than naphtha as a raw material for ethylene. This is the first point.

Second, naphtha's chemical composition is much more complex than ethane's, producing many other chemical compounds in the refining process, so that an average of 3 tons of naphtha are required to produce the same 1 ton of ethylene that can be produced with only 1.1 tons of ethane. This means that for the same amount of ethylene output, plants that use natural gas as a raw material are smaller and simpler, so require smaller investments.

In short, as ethylene made from natural gas requires less investment and comes from a cheaper raw material, it is far more competitive than that made from naphtha. Producers in natural gas producing areas of ethylene derivatives, such as polyethylene and styrene, are also bound to be able to determine the international market prices of these derivative products. This is why, despite the general U.S. trade deficit, U.S. petrochemical products have been able to achieve a trade surplus of more than \$10 billion a year. Meanwhile, Asia's petrochemicals industry uses naphtha as a raw material almost exclusively, which means that for the foreseeable future, it will be faced with pressure from producers in Canada, the United States, and the Middle East. (This is the reason why Taiwan's China Petroleum Company supplying petrochemical raw materials at U.S. prices is subsidization.)

Downstream Customers Are Moving to Mainland China

Taiwan's petrochemicals producers are faced with a greater problem of their downstream customers moving to Mainland China than are other places in Asia. The severity of this problem might be explained by the following example. If a certain petrochemical product in Asia has a cost, insurance and freight (C.I.F.) at \$1,000 a ton, and Taiwan's import duty is 3 percent, Taiwanese petrochemical producers can take advantage of favorable factors, such as spot supply and no need for credit customers, to sell their product at a price that is 5-7 percent higher than the C.I.F., for an income of \$1,050 to \$1,070 a ton. If these producers sell the same product to downstream customers who have moved to Mainland China, they can deduct freight costs of about \$50 a ton from the international C.I.F., for an actual income of about \$950 a ton, or a price difference of \$100 to \$120 a ton, which is generally equivalent to the profit of a petrochemical producer. Unless they can increase the usage of local customers in Taiwan, petrochemical producers have no reason for further investment in Taiwan.

Will Taiwanese manufacturers be able to stop or slow the move to Mainland China? Unless the PRC changes its policy, the answer to this question is no. For instance, the Zhu Jiang (river) Delta has well-developed infrastructures, such as water, power, and transportation, plus the two uniquely favorable conditions of a shortage-proof and cheap labor supply, and a more convenient administrative system, due to the devolution of authority to lower levels. Ordinary investments there of millions of U.S. dollars require dealings only at the township level, which would be impossible in other places. While this can lead to other abuses, the area is still overall an attractive place in which to invest. This can be regarded as a footnote to the shift of Taiwanese

investment from its initial flow to Southeast Asia to its current one to Mainland China.

Petrochemicals producers who invest in Mainland China can expect favorable land conditions and the advantage of selling to export customers at prices slightly higher than the international C.I.F. Moreover, high tariffs will enable them to earn very high profits from domestic sales, so that their overall profits will be much higher than those of factories in Taiwan. At question is whether the Taiwan government will allow the petrochemicals industry to invest in Mainland China.

Will Taiwan Be Able To Keep Its Key Petrochemicals Industrial Base?

Taiwan's economic base is manufacturing, so that due to the macroclimate, while the government cannot control the move abroad of downstream manufacturers, it is still demanding that the industrial "base" remain in Taiwan. As the petrochemicals industry is a "key base," what will Taiwan's industrial world have left if it cannot keep this base? And how would it change the whole society? This March, Taiwanese banks jointly loaned Taiwan Plastics' U.S. plants over 2 billion yuan, which should be one way for the Taiwanese government to meet Wang Yung-ch'ing's demand to keep the "base" in Taiwan.

On a deeper level, the most basic safeguard for Taiwanese firms on Mainland China is an independent Taiwan. Will most of the industry having moved to the PRC speed up "reunification"? And how will Taiwanese firms maintain their independence after reunification? All such questions must be asked by those who care about Taiwan. What actually is a "base"? How is Taiwan qualified to keep which "bases"? And what will be the state of Taiwan's industrial and social structures five years from now? These may be the biggest issues facing Taiwan at present.

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